BROOKFIELD

1998 Annual Report

Brookfield Properties Corporation owns and manages a portfolio of premier North American office properties and also develops master-planned residential communities. Operations include:

- 50 commercial properties containing 34 million square feet of rentable area;
- a property services business which manages over 100 million square feet; and
- a land and housing business which sells 4,500 residential building lots annually.

Brookfield's objective is to build shareholder value by owning quality assets and managing each of its operations to increase cashflows.

Financial Highlights

(Millions of Canadian dollars, except per share information)	1998	1997
Results of Operations		
Revenues	$ 2,363	$ 1,506
Property net operating income	750	516
Cashflow from operations	290	164
Net income	189	109
Financial Position		
Total assets	$ 11,711	$ 9,145
Capital base	3,609	3,280
Fully diluted common shareholders' equity	2,364	2,182
Per Fully Diluted Common Share		
Cashflow from operations	$ 1.68	$ 1.15
Net income	$ 1.04	$ 0.67
Dividends	$ 0.24	$ 0.10
Book value	$ 14.82	$ 13.91
Closing market price	$ 18.50	$ 23.85

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Report to Shareholders

Overview

In 1998, Brookfield benefited significantly from the initiatives taken over the past five years to build the premier office component of the company's property portfolio. Cashflow from operations increased to $290 million or $1.68 per fully diluted share, 76% higher than last year. Net income increased to $189 million or $1.04 per fully diluted common share, compared to $109 million last year.

During the year, steps continued to be taken to build the company's commercial property portfolio, with net property additions of $2.5 billion, encompassing 4.8 million square feet. Ownership interests were acquired and increased in eight premier office properties in New York, Boston and Calgary. At year end, 20 premier office properties in six markets made up 80% of Brookfield's commercial property portfolio.

The occupancy levels in the company's core office portfolio increased to 98%, with overall occupancy at 96%, as Class A vacancy levels in most of Brookfield's markets dropped to their lowest levels in recent years.

The company's capital base grew by $329 million during 1998 to $3.6 billion, a $2.6 billion increase since the end of 1996. In addition, virtually all the company's commercial debt is now structured in the form of non-recourse project mortgages.

Looking ahead, continuing improvements in Brookfield's financial results are anticipated. Contractual increases in existing leases and higher rental rates on lease rollovers will supplement cashflows over the next two years. Vacancy rates are expected to remain low, as the tightening of both debt and equity markets has dampened the prospects for speculative building of new office space.

1999 Objectives

- Increase long-term investment returns by disposing of non-core properties and re-investing in premier office properties.
- Increase market presence through joint ventures with institutional partners.
- Lengthen the average lease term beyond the present nine years.
- Ensure tenant service standards are the highest in each market.
- Redeploy capital from accelerated development and sale of long-term residential land.
- Increase home sales to 3,000 units.
- Refinance existing over-market debt when opportunities arise.
- Broaden Brookfield's shareholder base and improve the trading price of the company's shares.

With the exception of a few buildings under construction in Calgary and Minneapolis, there is minimal office space under development in Brookfield's principal markets.

Brookfield continues to look for opportunities to increase the proportion of premier office properties in its portfolio, using internally generated cashflow and capital generated from the disposition of non-core commercial assets and long-term residential land holdings. The focus is on major North American head office markets, and a meaningful presence has already been established in New York, Toronto, Boston, Denver, Minneapolis and Calgary.

Brookfield's Senior Management Team:
Left to Right (Seated): Ian Cockwell, Gordon Arnell, Bruce Flatt, John Zuccotti and David Arthur.

Left to Right (Standing): Peter Nesbitt, John Campbell, Bill Pringle, Alan Norris, Richard Clark and Steven Douglas.

Commercial Properties

Brookfield completed several initiatives in 1998 which should increase future cashflows and the property values underlying its common shares:

New York

- Increased the company's net effective interest in the existing New York property portfolio by 2.7 million square feet with the acquisition of an additional 19% ownership interest in six major office buildings.

- Changed the name of the New York commercial property operations to *Brookfield Financial Properties.*
- Increased the occupancies of the New York portfolio to 98%, with net rental rates now exceeding US$43 per square foot in midtown Manhattan and US$30 per square foot in downtown Manhattan.
- Redesigned and upgraded the lobby and other features of the company's Park Avenue building in midtown Manhattan and opened the *Xerox International Display Center* at this location.

Toronto

- Increased the occupancy of the Toronto core office portfolio to 97%, despite a slower leasing market in the second half of the year. With the uncertainties surrounding the bank mergers which clouded the Toronto office market now removed, tenants are once again making long-term commitments.
- Advanced the lease-up of Exchange Tower to 94%, opened the new *Toronto Stock Exchange Retail Emporium* for investors and reconfigured and released the retail areas of this complex.
- Leased the recently acquired Queen's Quay Centre, now renamed Newcourt Centre, to 87% by relocating Newcourt Credit Group from BCE Place, thereby providing an opportunity to increase BCE Place's rental revenues.
- Refinanced the Bay Wellington Tower at BCE Place with a $300 million non-recourse fixed-rate, 15-year mortgage at 6.4%.

Vacancy Rates

Premier Office Properties

	December 1998	December 1993
Midtown New York	**5%**	16%
Downtown New York	**7%**	20%
Toronto, Ontario	**5%**	18%
Boston, Massachusetts	**3%**	18%
Denver, Colorado	**7%**	11%
Minneapolis, Minnesota	**4%**	12%
Calgary, Alberta	**4%**	12%

- Continued the redevelopment of a number of properties, including Bramalea City Centre and Sheridan Mall in suburban Toronto.

Boston

- Leased the Boston office portfolio to 99% occupancy, with net rental rates for premier office space rising steadily during the course of the year to more than US$40 per square foot. Low vacancy rates, a restrictive building code and growing demand from the financial services sector have

enabled Boston to become one of the more attractive North American office markets for investment.

- Acquired the other half of the 1.1 million square foot Exchange Place office property at 53 State Street.
- Acquired and refinanced the Fleet Center, a 1 million square foot premier office property at 75 State Street.

Denver

- Participated in the sharp recovery in rental rates in Denver during the second half of 1998, as Class A office vacancies moved under 7%. Net rental rates for premier properties increased by approximately 50% to US$19 per square foot for the first time in 15 years.
- The Pavillions, which includes Nike Town, restaurants and movie theatres as its major tenants, opened next to Brookfield's Republic Plaza and World Trade Center properties. This new project led to higher retail sales in Brookfield's own properties and improved the utilization of the company's parking facilities located in the area.

Minneapolis

- Lengthened the term of the leases in the Minneapolis portfolio beyond the expected lease-up period for new properties currently under construction by other property owners.
- Converted the Minneapolis City Center third-floor retail space into office facilities for the Minneapolis Bar Association.

Calgary

- Acquired 50% of the Petro-Canada Centre, a 2 million square foot premier office property, for $200 million and negotiated a new 15-year, 850,000 square foot lease for Petro-Canada's world-wide headquarters.
- Sold six Class B office properties to complete the repositioning of the company's Calgary office portfolio.

Net Rental Rates*

Premier Office Properties

($ per square foot)	**December 1998**	December 1997
Midtown New York	**US $43**	US $37
Downtown New York	**US $30**	US $25
Toronto, Ontario	**Cdn $35**	Cdn $30
Boston, Massachusetts	**US $40**	US $35
Denver, Colorado	**US $19**	US $13
Minneapolis, Minnesota	**US $19**	US $20
Calgary, Alberta	**Cdn $21**	Cdn $20

**Estimated market net rental rates for premier space.*

Property Management Services

During 1998, Brookfield Management Services strengthened its position as one of the most cost-effective property management companies in North America, managing over 100 million square feet of space. Two thirds of the properties managed are owned by institutional, government and other commercial clients.

Being *Committed to Outstanding Service* has enabled Brookfield Management Services to profitably grow each of its property management divisions. Jointly-owned *Brookfield LePage Johnson Controls*, is now a leader in Canada in the facilities management sector.

Highlights for the year include:

- Adding 24 million square feet under management by winning contracts to provide facilities management services for Public Works Canada.
- Acquiring a 30% interest in Brookfield Management Services to make this operation wholly owned.
- Implementing portfolio-wide programs to reduce costs and upgrade tenant services.

Land and Housing

During 1998, Brookfield's land and housing operations achieved its goal of increasing home sales in order to maximize the generation of cash from the company's land holdings. A number of strategic initiatives were undertaken which will lead to the land and housing operations generating at least $100 million of net cashflow in each of the next four years. These initiatives include:

- Increasing home closings in 1998 by 29% to over 2,500 units, with plans in place to sell over 3,000 homes within two years.
- Achieving 4,500 lot sales with plans in place to increase sales further in 1999.

Lot and Home Sales

	Home Sales		Lot Sales	
	1998	1997	**1998**	1997
San Francisco Bay Area	**310**	40	**315**	41
Southland/Los Angeles	**383**	40	**449**	40
San Diego/Riverside	**528**	381	**568**	1,218
Virginia/Maryland	**490**	417	**763**	578
Florida	**63**	241	**239**	241
Toronto	**364**	419	**541**	669
Calgary	**391**	259	**1,208**	968
Edmonton	**—**	—	**378**	366
Other	**—**	158	**—**	537
	2,529	1,955	**4,461**	4,658

- Assembling a new master-planned residential community of 1,000 acres in Denver's southeastern growth corridor. By expediting the approval process, lot sales will commence in 1999.
- Positioning Brookfield solidly in California as one of the state's leading home builders.

Financial Highlights

During 1998, Brookfield achieved or exceeded all of the financial targets set at the beginning of the year. This led to Dominion Bond Rating Service upgrading the company's unsecured corporate debt rating to BBB (high).

- Cashflow from operations rose to $290 million from $164 million in 1997, increasing cashflow per fully diluted share to $1.68 compared to $1.15 in 1997.
- Net income improved to $189 million compared with $109 million in 1997.
- More than $1 billion of property mortgage debt was refinanced, increasing the average term of Brookfield's commercial property debt to 14 years.
- Virtually all of the company's commercial property debt is now restructured on a non-recourse basis.
- Brookfield's average borrowing rate was reduced from 7.7% to 7.3%.

These initiatives enabled the company to increase the semi-annual common share dividend payout from $0.10 per share in June 1998 to $0.14 per share in December 1998, and significantly strengthened Brookfield's financial base as well as the company's ability to achieve its planned 20% growth in operating cashflows in 1999.

Outlook

Brookfield will continue to pursue its strategy of increasing the premier office property component of the company's total portfolio. This strategy is based on the belief that, over the longer term, premier properties will outperform other properties because of their preferred location, physical construction, quality of services provided, financing profile and tenant mix. Opportunities will also be sought to enhance long-term returns through the sale of non-core properties and the acquisition of premier office properties.

Brookfield's primary financial goal is to increase shareholder value by safeguarding and increasing the high-quality cashflow generated by the company's premier office properties. With the contractual increases in rental rates currently in place, management is confident of achieving this objective in 1999.

Higher rental revenues, together with the improved performance of Brookfield's residential operations, should lead to Brookfield reporting a meaningful increase in cashflow in 1999 as well as in 2000. Beyond this, shareholders are cautioned that continued cashflow growth will depend on the strength of the North American economy, and in particular, the financial markets.

With substantial internal cashflow generation, Brookfield has no current need to access the capital markets. If the share price of Brookfield and its public affiliates continue to trade at substantial discounts to their net asset values, shares may be purchased in the marketplace. Consideration is also being given to listing Brookfield's shares on a US stock exchange in order to broaden the company's shareholder base.

Special thanks are due to the more than 2,500 people who operate our buildings, service our tenants and build homes for our customers. We are *Committed to Outstanding Service* and, as a result, appreciate the dedication of our colleagues to achieving this goal. We strive every day to understand the needs of our tenants and customers and search for ways to exceed their expectations. Working together, we are committed to maintaining Brookfield's pre-eminent position as an owner and provider of the highest-quality office space in North America.

On behalf of the board,

Gordon E. Arnell
Chairman and Chief Executive Officer

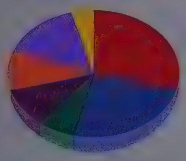
J. Bruce Flatt
President and Chief Operating Officer

February 9, 1999

COMMERCIAL PROPERTIES

- *50 commercial properties.*
- *34 million square feet of rental space.*
- *80% of portfolio in 20 office properties.*

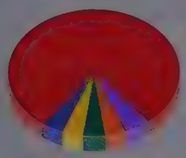
DISTRIBUTION OF COMMERCIAL PROPERTIES



(By net square feet)

New York	29%
Toronto	25%
Boston	7%
Denver	10%
Minneapolis	10%
Calgary	15%
Other	4%

LEASE MATURITIES



Current	4%
1999	4%
2000	4%
2001	4%
2002	5%
Beyond 2002	79%

FLEET CENTER GALLERIA AT 75 STATE STREET IN BOSTON, MASSACHUSETTS

NEW YORK, NEW YORK

- Brookfield's New York portfolio consists of five major properties encompassing 10 million square feet of premier office space.
- Brookfield is one of the largest landlords in Manhattan and owns and manages over 15% of the Class A office space in downtown Manhattan.
- The centerpiece of the Manhattan portfolio is the 7.5 million square foot World Financial Center which ranks as one of the highest quality and most technologically advanced office property complexes in the world.
- The portfolio is 98% leased to high-credit quality tenants.

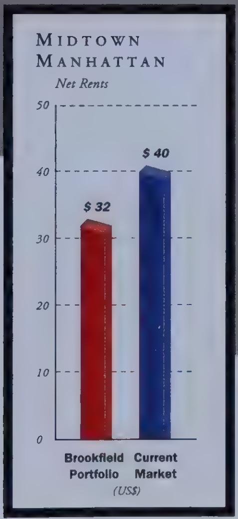
FOUR WORLD FINANCIAL CENTER

ONE WORLD FINANCIAL CENTER

TWO WORLD FINANCIAL CENTER

245 Park Avenue, next to Grand Central Station

One Liberty Plaza, adjacent to the World Trade Center



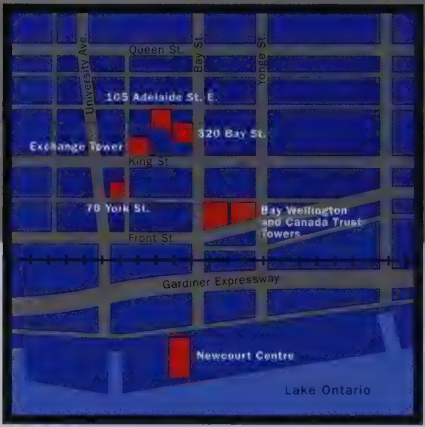
TORONTO, ONTARIO

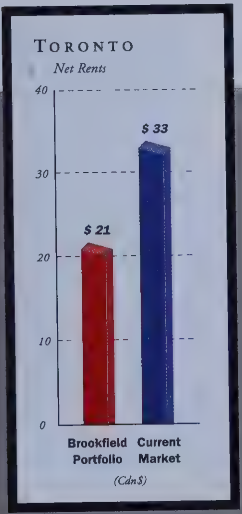
- Brookfield's Toronto portfolio consists of 19 properties encompassing 10 million square feet of predominantly premier office space.
- Brookfield owns and manages 25% of the Class A office space in downtown Toronto.
- The flagship of the Toronto portfolio is BCE Place, which is regarded as the premier office property complex in Canada.
- The vacancy rate in Class A space is 5%, and rental rates in the portfolio are 60% of current market rental rates.

EXCHANGE TOWER, IN THE HEART OF DOWNTOWN TORONTO

HONGKONG BANK BUILDING

NEWCOURT CENTRE





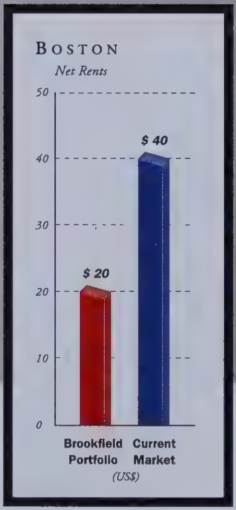
BCE PLACE
CANADA TRUST TOWER, BAY WELLINGTON TOWER,
LAMBERT GALLERIA AND THE HERITAGE SQUARE IN TORONTO, ONTARIO

320 BAY STREET

Boston, Massachusetts

- Brookfield's Boston portfolio consists of two premier office properties containing 2.1 million square feet and representing 7% of the downtown Class A office space.
- Brookfield acquired a major presence in downtown Boston in 1998 through the acquisition of a further 50% of the Exchange Place office property at 53 State Street and a 100% interest in the neighbouring 1 million square foot 75 State Street office property.
- These properties are 99% leased to high-quality tenants and rental rates in the portfolio are 50% of current market rental rates.
- With vacancies at historic lows of 3%, net rental rates in Boston now exceed $40 per square foot.

Exchange Place, at 53 State Street



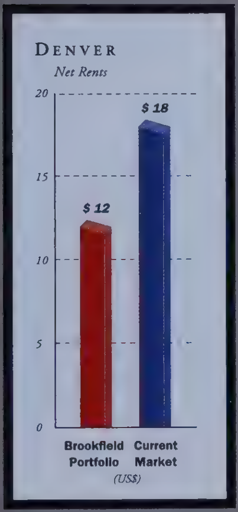
Fleet Center, at 75 State Street

Exchange Place (left) and Fleet Center (right) in Boston, Massachusetts

DENVER, COLORADO

- Brookfield's Denver portfolio consists of five properties encompassing 3.1 million square feet of predominantly premier office space.
- Brookfield owns and manages 20% of the Class A office space in downtown Denver.
- The 1.8 million square foot Republic Plaza office property is the tallest property in Colorado and is one of the highest quality office properties in downtown Denver.
- Vacancy rates have dropped to 7% in Class A space. Net rental rates increased 50% in 1998 and rental rates in the portfolio are 65% of current market rental rates.

WORLD TRADE CENTER I AND II



REPUBLIC PLAZA, AT THE HEART OF DENVER'S FINANCIAL DISTRICT

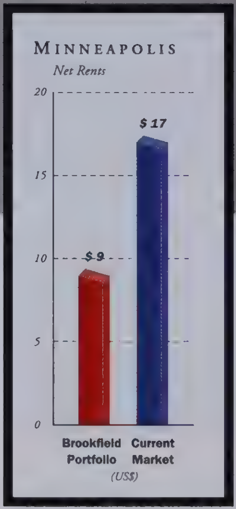
COLORADO STATE BANK BUILDING

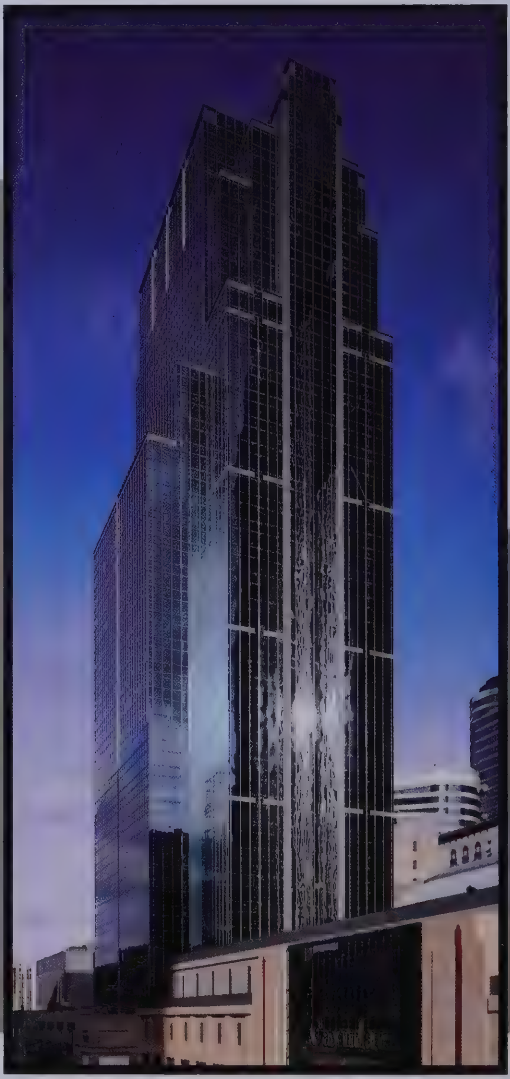
Minneapolis, Minnesota

- Brookfield's Minneapolis portfolio consists of three properties, encompassing 3 million square feet of premier office and urban retail space.
- Brookfield owns and manages 16% of the Class A office space in downtown Minneapolis.
- The vacancy rate in Class A space is 4% and rental rates in the portfolio are 50% of current market rental rates.
- Construction now under way is likely to temper the growth in market rental rates over the next three years.

Gaviidae Common

Minneapolis City Center



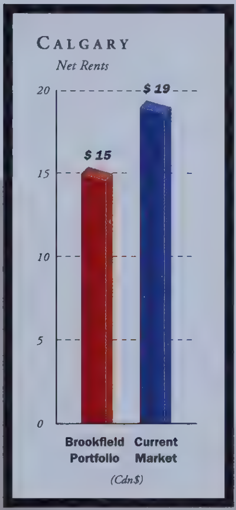


Dain Plaza, in downtown Minneapolis, Minnesota

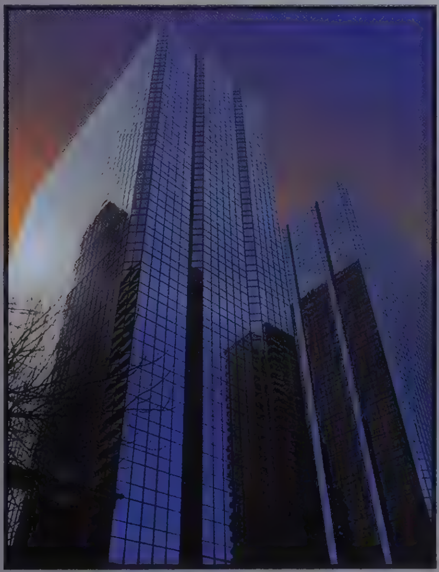
Calgary, Alberta

- Brookfield's Calgary portfolio consists of nine properties, encompassing 5.5 million square feet of primarily premier office space in downtown Calgary.
- Brookfield recently acquired 50% of the 2 million square foot Petro-Canada Centre, the largest premier office property in western Canada.
- Brookfield sold six non-core Class B office properties in western Canada in 1998.
- Total occupancy of the portfolio is 94% and rental rates in the portfolio are 75% of current market rental rates.

First Alberta Place



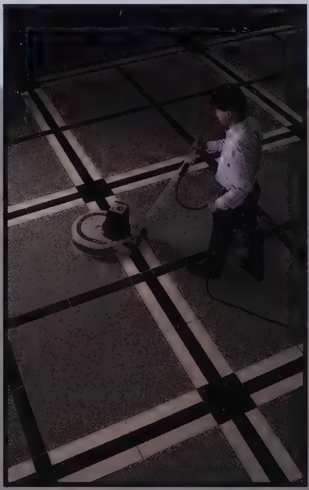
Petro-Canada Centre, acquired in 1998, is adjacent to Fifth Avenue Place



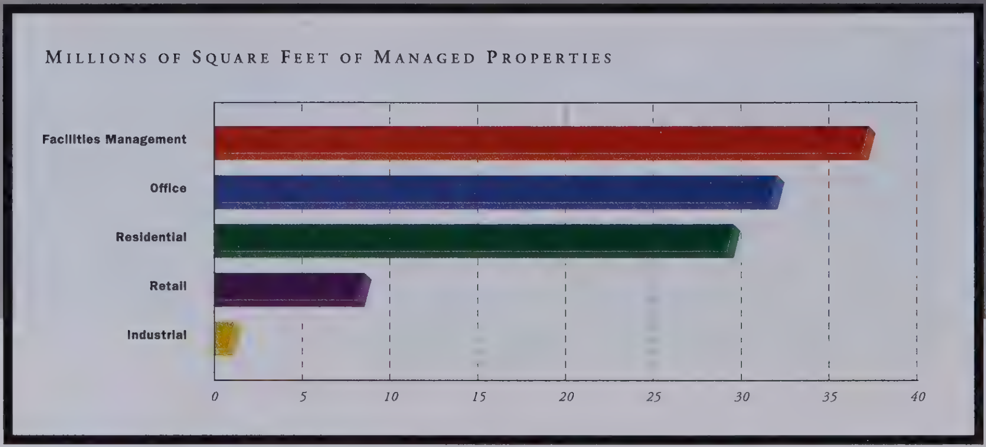
Fifth Avenue Place

Property Management Services

- Brookfield is *Committed to Outstanding Service* in all of its operations and to exceeding tenant expectations by understanding their needs and servicing them better every time.
- Brookfield has over 100 million square feet of space under management for the company and other institutional clients.
- The *Brookfield LePage Johnson Controls* facilities management joint venture is a leader in facilities management in Canada.



"Committed to Outstanding Service"



Office Property Management Services

- Manages 32 million square feet of office space.
- Local presence in markets provides economies of scale.
- Operating focus is on achieving a Class AAA Service Standard in order to provide the highest-quality service.
- Services include property management, leasing, construction services and tenant retention.
- Received the *International Building of the Year Award* from the leading industry association.

Facility Management Services

- Jointly-owned *Brookfield LePage Johnson Controls* is the premier facilities manager in Canada, with 37 million square feet under management.
- Manages 24 million square feet of properties for the Government of Canada.
- Manages 8 million square feet of properties for Canada Post Corporation.

Residential Management Services

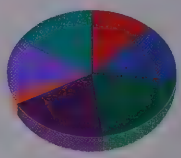
- Manages 30 million square feet of condominium and apartment units.
- The largest manager of residential space in Toronto.

Retail Property Management Services

- Services include management, leasing and construction services.
- Brookfield's focus is on projects requiring value enhancement initiatives.
- Downtown retail specialty group focuses on mixed-use properties.

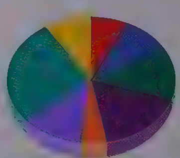
Land and Housing

Home Sales



San Francisco Bay Area	12%
Southland/Los Angeles	15%
San Diego/Riverside	21%
Virginia/Maryland	19%
Florida	3%
Toronto	14%
Calgary	16%

Lot Sales



San Francisco Bay Area	7%
Southland/Los Angeles	10%
San Diego/Riverside	13%
Virginia/Maryland	17%
Florida	5%
Toronto	12%
Calgary	27%
Edmonton	9%

- *4,500 lots sold annually on which 2,500 homes are built.*
- *36,000 entitled residential lots.*
- *10% of net asset value.*

Scripps Ranch, a 3,000 lot master-planned residential community in San Diego, California

Tuscany, a 4,000 lot master-planned residential community in Calgary, Alberta

Braemar, a 3,000 lot master-planned residential community in Prince William County, Virginia

A Brookfield home at Tesoro Villas in Orange County, California

Commercial Properties by Region

	Number of Properties	Occupancy	Office	Retail/ Other‡	Rentable Area	Effective Ownership Interest	Brookfield's Effective Interest
		(%)	(000s of sq. ft.)	(000s of sq. ft.)	(000s of sq. ft.)	(%)	(000s of sq. ft.)
New York							
World Financial Center							
Tower One	1	100	1,461	50	1,511	100	1,511
Tower Two	1	100	2,455	35	2,490	100	2,490
Tower Four	1	100	1,711	37	1,748	51	891
Retail and Galleria		85	—	177	177	100	177
One Liberty Plaza	1	100	2,055	68	2,123	100	2,123
245 Park Avenue	1	93	1,560	58	1,618	100	1,618
	5	98	9,242	425	9,667		8,810
Toronto							
BCE Place							
Canada Trust Tower	1	100	1,127	—	1,127	40	451
Bay Wellington Tower	1	98	1,244	—	1,244	100	1,244
Retail, Parking & 22 Front	2	100	196	809	1,005	74*	747
Exchange Tower Block	3	94	1,419	378	1,797	95*	1,715
Hongkong Bank Building	1	82	188	6	194	100*	194
Newcourt Centre	1	87	377	74	451	100*	451
Bramalea City Centre	1	94	73	1,041	1,114	100*	1,114
Other	9	90	1,264	1,327	2,591	62*	1,602
	19	94	5,888	3,635	9,523		7,518
Boston							
Exchange Place	1	99	1,090	30	1,120	100	1,120
Fleet Center	1	100	755	247	1,002	100	1,002
	2	99	1,845	277	2,122		2,122
Denver							
Republic Plaza	1	99	1,235	549	1,784	100	1,784
World Trade Center	2	99	745	43	788	100	788
Colorado State Bank Building	1	75	415	—	415	50	208
Highland Place	1	85	141	—	141	100	141
	5	94	2,536	592	3,128		2,921
Minneapolis							
Minneapolis City Center	1	90	1,082	695	1,777	100	1,777
Dain Plaza	1	95	593	247	840	100	840
Gaviidae Common	1	100	—	392	392	100	392
	3	93	1,675	1,334	3,009		3,009
Calgary							
Fifth Avenue Place	1	100	1,447	137	1,584	100*	1,584
Petro-Canada Centre	1	91	1,702	243	1,945	50*	973
First Alberta Place	1	96	280	17	297	100*	297
Londonderry Mall	1	92	—	769	769	100*	769
Other	5	92	130	803	933	100	933
	9	94	3,559	1,969	5,528		4,556
Other							
Chicago Place	1	98	—	311	311	100	311
Imperial Promenade	1	90	239	—	239	100	239
Other	5	96	268	640	908	100	908
	7	96	507	951	1,458		1,458
Total Portfolio	50	96	25,252	9,183	34,435		30,394
*Less: Interests held by Gentra's and other shareholders in these properties							5,742
Brookfield's Net Effective Ownership Interest							24,652

‡ *Includes parking facilities in mixed-use centres of 2,601,000 square feet.*

Land and Housing Operations by Region

	Residential Building Lots			
	Home Building	Land Under Development	Land For Development	Total Lots
San Francisco Bay Area				
Palmia	143	—	—	143
Brentwood Lakes	798	—	—	798
Northeast Ridge	319	168	—	487
Other (3 projects)	282	—	—	282
	1,542	168	—	1,710
Southland/Los Angeles				
La Vina	103	—	—	103
Estancia and Virazon	178	—	—	178
Tesoro Villas	50	—	—	50
Coto de Caza	37	—	—	37
Other (4 projects)	174	161	392	727
	542	161	392	1,095
San Diego/Riverside				
Scripps Ranch	283	—	—	283
Calavera Hills	50	393	—	443
Chase Ranch	180	—	—	180
Bella Lago	56	—	—	56
Other (7 projects)	638	—	3,434	4,072
	1,207	393	3,434	5,034
Virginia/Maryland				
Braemar	264	2,311	—	2,575
Northlake	349	—	—	349
Russett Center	—	680	—	680
Villages of Marlborough	382	—	—	382
Other (12 projects)	351	109	358	818
	1,346	3,100	358	4,804
Florida				
The Point at the Waterways	204	456	—	660
Presidential Estates	163	—	—	163
Metropolitan	199	—	—	199
	566	456	—	1,022
Denver				
Tallyn's Reach	—	2,691	—	2,691
Toronto				
Whitby Shores	418	—	—	418
Port Union Village	135	—	—	135
Harrowsmith	72	572	—	644
Other (12 projects)	500	1,036	3,482	5,018
	1,125	1,608	3,482	6,215
Calgary				
McKenzie Towne	24	399	7,268	7,691
Cranston	—	198	3,873	4,071
Tuscany	39	369	3,048	3,456
Other (4 projects)	86	178	10,415	10,679
	149	1,144	24,604	25,897
Edmonton				
Parkland	—	—	2,041	2,041
Terwillegar Towne	—	91	2,005	2,096
Ellerslie	—	—	7,175	7,175
Other (5 projects)	—	197	48	245
	—	288	11,269	11,557
Total Lots	6,477	10,009	43,539	60,025
Less: Unentitled lots	—	—	23,609	23,609
Total Entitled Lots	6,477	10,009	19,930	36,416

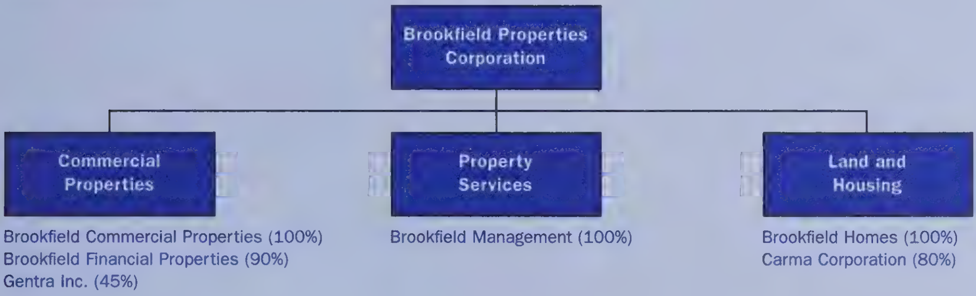
Financial Review

Contents

Management's Discussion and Analysis

Overview

Brookfield is a publicly-traded North American real estate company with $11.7 billion in assets and $2.4 billion in revenues. Brookfield owns and manages a portfolio of premier North American office properties and also develops master-planned residential communities. Brookfield's objective is to build shareholder value by owning and acquiring quality assets and managing each of its operations to increase cashflows.



Commercial Properties

Brookfield's strategy is to own premier office properties in prime downtown locations of selected cities in North America. Brookfield's portfolio consists of equity interests in 50 commercial properties, predominantly office buildings, containing 34 million square feet of rentable area in which Brookfield has a net ownership interest in 30 million square feet. Of this portfolio, 20 premier properties located in the downtown core of six office markets represent 80% of the total square footage and carried value of Brookfield's portfolio. Brookfield plans to increase its ownership interests in properties currently owned and to acquire additional premier office properties in the six markets where Brookfield currently operates, provided they have a positive impact on the company's cashflows and long-term net asset values. Brookfield will also acquire assets through joint-ventures with partners, if opportunities arise which meet management's return criteria.

Property Management Services

Brookfield manages over 100 million square feet of space across North America. Brookfield's property management services operations focus on four segments: office property management, facilities management for single-user owner-occupied properties, residential condominium and apartment management and the management of retail properties. Brookfield strives to be a full-service provider in these markets, providing property management, leasing and facilities management services in order to increase the value of properties through reduced operating costs and increased tenant satisfaction and retention.

Land and Housing

Brookfield owns over 36,000 entitled residential building lots for use in Brookfield's home-building operations and for sale to other home builders. Brookfield also owns land which, when entitled, will provide for a further 24,000 residential lots. This land is being held for future development into master-planned communities, once water, sewage, and other services are available and subdivision and lot entitlement plans have been approved by municipal and other regulatory authorities.

ASSET PROFILE

Total assets increased to $11.7 billion compared with $9.1 billion in 1997. The increase resulted largely from the acquisition of additional equity interests in eight office properties during the year.

The book value of the company's assets segmented by area of operation is as follows:

Years ended December 31	1998		1997	
(Millions)	Book Value	%	Book Value	%
Commercial properties	$ 9,026	77	$ 6,395	70
Residential home building	843	7	691	8
Development land	653	6	756	8
Receivables and other	984	8	1,003	11
Cash and cash equivalents	205	2	300	3
	$ 11,711	100	$ 9,145	100

On a book value basis, commercial properties continue to increase as a proportion of the company's assets and now represent 77% of the company's asset base. The commercial property portfolio is substantially weighted to premier downtown office properties in six North American cities. The receivables and other assets are predominantly loans to third-party commercial real estate borrowers. These loans are of a short-term nature and will be liquidated over the next 18 months in order to provide funds to reduce debt or for further investment into commercial properties.

Land and housing assets represent 7% and 6% of Brookfield's assets, respectively, down from each representing 8% of the assets at December 31, 1997. Long-term land holdings will continue to decline as these assets are developed and the capital invested is recovered.

COMMERCIAL PROPERTY PORTFOLIO

The carrying value of Brookfield's commercial properties increased by 41% to $9 billion compared with $6.4 billion in 1997. The increase resulted principally from the acquisition in 1998 of a net 4.8 million square feet of commercial properties. The following table provides a summary of Brookfield's commercial property portfolio by region:

	Total Net Rentable Area	Brookfield Interest	Dec. 31 1998	Dec. 31 1997
	(000s of sq. ft.)	*(000s of sq. ft.)*	*(Millions)*	*(Millions)*
New York, New York	9,667	8,810	$ 4,578	$ 3,024
Toronto, Ontario	9,523	7,518	1,504	1,482
Boston, Massachusetts	2,122	2,122	996	156
Denver, Colorado	3,128	2,921	560	515
Minneapolis, Minnesota	3,009	3,009	602	646
Calgary, Alberta	5,528	4,556	565	427
Other	1,458	1,458	221	145
Total	34,435	30,394	$ 9,026	$ 6,395

Property Overview

On a book value basis, 76% of Brookfield's commercial properties are located in the United States and 24% in Canada. Rental revenue and net operating income from US-based properties comprised 74% of revenue and 77% of net operating income, with the balance from Canadian operations.

The consolidated carrying value of Brookfield's interest in 30.4 million square feet of rentable area is approximately $296 (US$193) per square foot, while the cost to replace the portfolio is estimated at $445 (US$290) per square foot. The average size of Brookfield's major properties is 1.4 million square feet of rentable area.

During 1998, the only significant capital expenditure in the core portfolio was the upgrading of the lobby, plaza and elevators at 245 Park Avenue in midtown Manhattan. Due to the high quality of most of the properties in Brookfield's portfolio, capital expenditures, other than recurring capital maintenance provided for in leases, will be minimal in 1999. There are no major capital expenditures planned for the immediate future, other than on redevelopment properties such as Newcourt Centre and the Colorado State Bank Building.

In 1998, tenant improvements were $44 million and redevelopment expenditures, which included lease-up expenditures on these properties, were $83 million. With the core portfolio now 98% leased, tenant improvements are expected to decline in 1999 and 2000 and level off at approximately $30 million annually.

1998 Acquisitions

In 1998, Brookfield acquired a further 19% interest in its New York portfolio for US$117 million of cash, the issuance of a US$50 convertible debenture and the assumption of property related debt. As a result of this acquisition, Brookfield commenced full consolidation of the New York portfolio.

Brookfield also acquired the remaining 50% interest in 53 State Street in Boston, not previously owned, as well as the neighbouring property, 75 State Street, a 1 million square foot premier office property.

In Canada, Brookfield increased its presence in the Calgary office market through the acquisition of 50% of Petro-Canada Centre, a 2 million square foot premier office property, for $200 million. This transaction, combined with the disposition of six Class B office properties for proceeds of $65 million, greatly enhanced the quality of Brookfield's portfolio in Calgary without adding significantly to the company's overall exposure to this market.

Tenant Profile

Brookfield expects to achieve a 97% overall occupancy level in its properties by the end of 1999. The current profile of Brookfield's properties is weighted to high-quality tenants as follows:

Tenant	Industry	Tenant	Industry
Greater than 300,000 Square Feet			
Bear Stearns	Financial	Canadian Imperial Bank of Commerce	Financial
Canada Trust	Financial	Dayton Hudson Corporation	Retail
Cleary, Gottlieb, Steen & Hamilton	Legal	Imperial Oil	Oil & Gas
Dow Jones & Company Inc.	Publishing	Petro-Canada	Oil & Gas
Merrill Lynch & Company	Financial	TransCanada Pipelines	Oil & Gas
Teachers Insurance Annuity Association	Insurance		

150,000 – 300,000 Square Feet			
Bank of Nova Scotia	Financial	Bell Mobility	Communications
Deloitte & Touche	Professional Services	Fidelity Investments	Financial
Fleet National Bank	Financial	Goodwin, Proctor & Hoar	Legal
Gruntal & Co.	Financial	Dain Rauscher Corporation	Financial
Long-Term Credit Bank of Japan	Financial	National Financial Services	Financial
New York Life Health Care	Insurance	Renaissance Energy	Oil & Gas
Royal Bank of Canada	Financial	Saks Fifth Avenue	Retail
Wellington Management	Financial	Zurich Insurance	Insurance
75,000 – 150,000 Square Feet			
Boston Consulting Group	Consulting	Choate, Hall & Stewart	Legal
Fireman's Fund	Insurance	International Multifoods	Consumer
Major League Baseball	Entertainment	Newcourt Credit Group	Financial
Nieman Marcus	Retail	Odyssey Reinsurance Corporation	Insurance
Rabobank International	Financial	Tucker Anthony	Financial
Union Pacific Resources	Oil & Gas	William M. Mercer	Consulting
Xerox Corporation	Consumer		

Property Profile

The following is a detailed description of the major commercial properties owned by Brookfield:

New York, New York

The World Financial Center

The World Financial Center is a 7.5 million square foot complex located in the financial district of Manhattan, adjacent to the World Trade Center. The four office towers and 299,000 square feet of retail space are connected by a winter garden, a retail concourse and a glass-enclosed atrium. Brookfield owns three of the four office towers as well as 100% of the retail space and has development rights on approximately 2 million square feet of buildable area north of the current World Financial Center, which could entail the development of a sixth tower at the World Financial Center.

– One World Financial Center

One World Financial Center is a 40-storey tower, which was completed in 1985 and has a net rentable area of 1,511,000 square feet. The building is connected to the rest of the World Financial Center complex by an enclosed passageway. Brookfield owns a 100% leasehold interest on a ground lease with the Battery Park City Authority until June 17, 2069. The property is 100% leased and is the US headquarters of CIBC Oppenheimer and houses Dow Jones & Company Inc. and Fidelity Investments.

– Two World Financial Center

Two World Financial Center is a 44-storey tower completed in 1987, which has over 2,667,000 square feet of rentable area including 214,000 square feet of retail space. Two World Financial Center is one of the World Financial Center buildings which houses the world headquarters of Merrill Lynch. Two World Financial Center also includes the retail area of World Financial Center and the galleria podium of the complex. Brookfield owns a 100% leasehold interest on a ground lease with the Battery Park City Authority until June 17, 2069. This property is entirely leased to Merrill Lynch until September 2013 and is occupied predominantly by Merrill Lynch and Deloitte & Touche.

– Four World Financial Center

Four World Financial Center is a 34-storey tower completed in 1986, which has a net rentable area of 1,748,000 square feet. Four World Financial Center is one of the World Financial Center buildings which houses the headquarters of Merrill Lynch and is 100% leased to and occupied by Merrill Lynch. Brookfield owns a 51% leasehold interest on a ground lease with the Battery Park City Authority until June 17, 2069. Merrill Lynch owns a 49% leasehold interest in this property.

One Liberty Plaza

One Liberty Plaza is a 53-storey, 2,123,000 square foot office building located in downtown Manhattan adjacent to the World Trade Center in the financial district of lower Manhattan. The building was completed in 1971 as U.S. Steel's world headquarters, and was occupied by Merrill Lynch as its world headquarters until its move to the World Financial Center. Since 1987, the building has undergone substantial renovation, including complete reconstruction of the lobby and plaza areas. Brookfield owns a 100% freehold interest in this property, which is 100% leased to tenants including the Bank of Nova Scotia, Royal Bank of Canada, New York Life Health Care, Long-Term Credit Bank of Japan and the legal firm of Cleary, Gottlieb, Steen & Hamilton.

245 Park Avenue

245 Park Avenue is a 44-storey office tower located in midtown Manhattan on Park Avenue at 46th Street, immediately adjacent to Grand Central Station. The building was completed in 1970 and contains 1,618,000 rentable square feet. Brookfield owns a 100% freehold interest in this property which is 93% leased to tenants including Bear Stearns, Rabobank International, Xerox Corporation and Major League Baseball.

Toronto, Ontario

BCE Place

BCE Place is Canada's premier office complex and consists of 3,377,000 square feet of rentable area comprising two high-rise office towers located in Toronto's financial core in the block bounded by Bay, Wellington, Yonge and Front Streets. A 90-foot high glass-enclosed galleria integrates the two office towers, the related retail space, the Hockey Hall of Fame and 13 other historical buildings. With direct access to Union Station, the Toronto subway system and Commerce Court, BCE Place is a key point of entry to the underground pedestrian walkway system in Toronto. Tenants enjoy easy access to subway and commuter rail services. The project is within walking distance of many of Toronto's finest cultural landmarks, hotels, restaurants and recreational facilities.

– Canada Trust Tower

The Canada Trust Tower is located on the southwest corner of BCE Place, adjacent to Union Station. This 51-storey office building contains 1,127,000 square feet of rentable office space. Brookfield owns a 40% freehold interest in the Canada Trust Tower. The property is 100% leased and major tenants include Canada Trust, CIBC Wood Gundy, J & H Marsh & McLennan and William M. Mercer.

– Bay Wellington Tower

The Bay Wellington Tower is located on the northern portion of BCE Place. This 47-storey office tower contains approximately 1,244,000 square feet of rentable office space. Brookfield owns a 100% leasehold interest with a purchase option to acquire the land lease. The property is 98% leased and major tenants include Merrill Lynch, Deloitte & Touche, Noranda and the headquarters of Brookfield Properties.

– Retail, Heritage Office Buildings and Parking

The retail, heritage office buildings and parking facilities at BCE Place are located between and beneath the Canada Trust and Bay Wellington Towers and encompass the office space in the historic buildings and 22 Front Street, which was acquired in 1997. This forms the historic and entertainment portion of BCE Place, with retail on the concourse and main street levels as well as 1,450 below-grade parking stalls serving the BCE Place complex and the downtown district. This portion of the BCE Place complex contains 196,000 square feet of office and 809,000 square feet of retail and parking area. The project is 100% leased and also encompasses development potential to build a third tower at BCE Place of approximately 800,000 square feet of office space with significant infrastructure already in place.

Exchange Tower Block

The Exchange Tower Block consists of four components which comprise 1,797,000 square feet of total area, including 1,419,000 square feet of office space and 378,000 square feet of retail and parking facilities. The four components of the Exchange Tower Block are three office towers, the Exchange Tower, 320 Bay Street and 105 Adelaide Street, and the retail and parking components of the complex.

– Exchange Tower

Exchange Tower is located in Toronto's financial district at the corner of York and King Streets. The office property consists of a 1 million square foot office tower, which is integrated with the Toronto financial core and the underground pedestrian network as a component of the Exchange Tower Block. Gentra owns a 100% freehold interest in the property with the exception of a small leasehold interest on one component of the property. The property is 93% leased, and major tenants include: The Toronto Stock Exchange, First Marathon Securities, Public Works Canada and Reuters Information Services.

– 320 Bay Street

The 320 Bay Street office building is located in Toronto's financial core at the corner of Bay and Adelaide Streets. The project consists of an 18-storey historical office building, which was extensively renovated in 1990 bringing building systems up to current standards, and a new 14-storey adjacent office building. The building contains 284,000 square feet of rentable space, which is integrated with the Toronto financial core and the underground pedestrian network. Brookfield holds a 100% freehold interest in the property. The project is 99% leased, and Canada Trust and CIBC Mellon Trust Company are the major tenants.

– 105 Adelaide Street, Retail and Parking

These components of the Exchange Tower Block consist of 429,500 square feet of total rentable area. 105 Adelaide Street is a 12-storey office property located on Adelaide Street adjoining the north end of the Exchange Tower. The building was completely renovated in 1992 and contains 177,000 rentable square feet of office space and 245,500 square feet of parking facilities. Gentra owns 100% of the retail and parking components and a 55% interest in 105 Adelaide which is 96% leased to tenants including Lombard Insurance and HSBC James Capel Inc.

Hongkong Bank Building

The Hongkong Bank office building is located in Toronto's financial core at the corner of Wellington and York Streets. The project is a 17-storey office tower completed in 1991 and contains 194,000 square feet of predominantly office space, which is integrated with the Toronto financial core and underground pedestrian network. Gentra holds a 100% leasehold interest in the property, which is 82% leased. The major tenant is the Hongkong Bank of Canada.

Newcourt Centre

Newcourt Centre is located on the waterfront in downtown Toronto's financial district. The project consists of 451,000 square feet of leaseable area including 377,000 square feet of office space and 74,000 square feet of retail space. The property also contains 72 condominium units which are owned freehold by other parties. Gentra holds a 100% leasehold interest with an option to purchase the ground lease. The project is 87% leased after the relocation of Newcourt Credit Group to the property in 1999.

Bramalea City Centre

Bramalea City Centre regional shopping centre is located in Bramalea, Ontario, a suburb of Toronto. The project consists of 1 million square feet of retail space, a 143-unit hotel and 73,000 square feet of office space. There is also a 1,000-unit residential density allowance for future development. Gentra owns a 100% freehold interest in the project which is 94% leased. The project is currently undergoing a remerchandising program and the anchor tenants include Sears, The Bay and Eaton's.

Boston, Massachusetts

Exchange Place

Exchange Place is a 40-storey office tower in the heart of the financial district of downtown Boston located at 53 State Street. The property consists of 1,090,000 square feet of office space and 30,000 square feet of retail and parking area. This project was completed in 1984 and incorporates the historic granite and marble Stock Exchange building with a 40-storey office tower. Brookfield owns a 100% freehold interest in the property, which is 99% leased to tenants such as the Fidelity Mutual Fund Group, Smith Barney and the law firms of Goodwin, Proctor & Hoar and Choate, Hall & Stewart.

Fleet Center

Fleet Center is a 31-storey office tower, located next door to 53 State Street in the heart of the financial district of downtown Boston at 75 State Street. The property consists of 755,000 square feet of office space and 247,000 square feet of retail and parking area. This project was completed in 1989 and incorporates six types of marble and granite to the highest level of construction. As a result of location, age, physical characteristics and tenant profile, Fleet Center is one of the highest quality properties in downtown Boston. Brookfield owns a 100% freehold interest in the property, which is 100% leased to tenants such as Fleet National Bank and Wellington Management.

Denver, Colorado

Republic Plaza

Republic Plaza is located in the financial district of downtown Denver. The property consists of a 56-storey office tower containing 1,235,000 square feet of rentable office space, 45,000 square feet of rentable retail space and an underground parking facility for 200 vehicles consisting of 504,000 square feet. The property also includes an additional 1,250 above-ground vehicle parking facility. Republic Plaza is the largest office building in Denver and was completed in 1984. Brookfield owns a 100% freehold interest in the property which is 99% leased. Major tenants include Teachers Insurance Annuity Association, Duke Energy and the legal firm of Davis, Graham and Stubbs.

World Trade Center

World Trade Center is comprised of two 29-storey office towers, 1625 Broadway and 1675 Broadway, located in the financial district of downtown Denver across the street from the company's Republic Plaza property. These properties contain 745,000 square feet of rentable office space and 43,000 square feet of parking area. Brookfield owns a 100% freehold interest in the two properties which are currently 99% leased.

Colorado State Bank Building

The Colorado State Bank Building is located in the financial core of downtown Denver, adjacent to Brookfield's Republic Plaza and World Trade Center properties. The Colorado State Bank building was completed in 1971 and is currently undergoing a renovation and re-leasing program. The property contains 415,000 square feet of office space. Brookfield owns a 50% freehold interest in the property which is 75% leased to tenants, including the Colorado State Bank.

Minneapolis, Minnesota

Minneapolis City Center

Minneapolis City Center is located in Minneapolis on the Nicollet Mall between 6th and 7th Streets in the downtown core. The project consists of a 52-storey office tower containing 1,082,000 square feet of rentable office space, a 370,000 square foot, three-level retail centre and a six-level 325,000 square foot parking facility for 687 vehicles. The property is integrated with the company's Gaviidae Common retail centre and is also adjacent to Dayton's flagship department store. Minneapolis City Center also includes the 602-room Marriott Hotel that is constructed on lands leased from the company until 2036. Brookfield owns a 100% freehold interest in the total property. The project is 90% leased with Target Department Stores, a division of Dayton Hudson Corporation, being the largest tenant.

Dain Plaza

The Dain Plaza is a mixed-use office and retail project consisting of 840,000 rentable square feet in the Minneapolis financial district, across from the company's City Center project. The retail component consists of a 119,000 square foot Neiman Marcus department store and 70,000 square feet of other retail stores on four levels. The 40-storey office tower, completed in 1992, consists of 593,000 square feet. The property also has 210 underground parking stalls consisting of 58,000 square feet. Brookfield owns a 100% freehold interest in the property. The property is 95% leased, with the largest tenant being Dain Rauscher Corporation, a major stock brokerage and investment banking firm.

Gaviidae Common

Gaviidae Common is a 392,000 square foot, five-level retail centre in downtown Minneapolis. The project is anchored by Saks Fifth Avenue and features waterfalls and extensive natural light. The project contains parking for 490 vehicles consisting of 137,000 square feet and a 255,000 square foot retail area which is anchored at one end by Saks Fifth Avenue. Brookfield owns a 100% freehold interest in the retail component and a 100% leasehold interest in the Saks Fifth Avenue store. The property is 100% leased.

Calgary, Alberta

Fifth Avenue Place

Fifth Avenue Place is a 1,584,000 square foot office project, comprised of two 35-storey office towers encompassing 1,447,000 square feet of rentable office space and 137,000 square feet of retail space and underground parking located in the core of downtown Calgary. Fifth Avenue Place is connected to the above-ground pedestrian network. The project was completed in 1980, and since its acquisition in 1996, has undergone a substantial capital investment program. Gentra owns a 100% freehold interest in the property which is 100% leased. The major tenants are Union Pacific Resources, Imperial Oil Limited and Renaissance Energy.

Petro-Canada Centre

Petro-Canada Centre is a 1,945,000 square foot project, comprised of two office towers of 51 floors and 32 floors. The office towers encompass 1,702,000 square feet of rentable office space with the complex also containing 243,000 square feet of retail and underground parking area. Gentra owns a 50% freehold interest in the property which is 91% leased. Major tenants include Petro-Canada, TransCanada Pipelines, Koch Oil, Beau Canada Exploration, Penn West Petroleum and the legal firm of Parlee McLaws.

First Alberta Place

First Alberta Place is a 23-storey, 297,000 square foot office tower located in downtown Calgary. Gentra owns a 100% freehold interest in the property which is 96% leased. Major tenants include Bantrel and Dominion Insurance.

Londonderry Centre, Edmonton

Londonderry Centre is a regional shopping centre located in Edmonton, Alberta. The project consists of 769,000 square feet of rentable retail space. Gentra owns a 100% freehold interest in the property which is 92% leased. Major tenants include The Bay, Wal-Mart and Sport Chek.

Lease Maturities and Market Overview

Approximately 4% of the leases in the commercial property portfolio mature in each of the next four years. The lease maturity of Brookfield's portfolio by market is as follows:

Lease Maturity Schedule

(Thousands of square feet)	Currently Available	1999	2000	2001	2002	2003 & Beyond	Total Leaseable Area
New York, New York	172	33	50	40	102	9,270	9,667
Toronto, Ontario	551	407	386	248	428	7,503	9,523
Boston, Massachusetts	16	160	49	129	19	1,749	2,122
Denver, Colorado	166	288	288	344	175	1,867	3,128
Minneapolis, Minnesota	198	113	105	72	365	2,156	3,009
Calgary, Alberta	309	203	555	532	378	3,551	5,528
Other	63	47	57	41	239	1,011	1,458
Total	1,475	1,251	1,490	1,406	1,706	27,107	34,435
Percentage of total	4%	4%	4%	4%	5%	79%	100%

Rental Rate Renewal Schedule

As a result of a shortage of high-quality office space, rental rates rose during 1998, and in all markets are now higher than Brookfield's average portfolio rents. The following table compares the average net rents in Brookfield's portfolio to estimated current market rents for similar quality space and services by region:

Region	Currency	Average Lease Term	Brookfield Net Portfolio Rents	Current Net Market Rents*
		(Years)	*(Per sq. ft.)*	*(Per sq. ft.)*
New York – Midtown	US $	7	$ 32	$ 40
– Downtown	US $	13	29	30
Toronto	Cdn $	8	21	33
Boston	US $	7	20	40
Denver	US $	6	12	18
Minneapolis	US $	8	9	17
Calgary	Cdn $	9	15	19

** Estimated current net market rent for similar quality space and services in the same market.*

Property Management Services

Brookfield manages over 109 million square feet of rental space in eight markets across North America. The distribution of this portfolio by market and type of property is as follows:

(Thousands of square feet)	Office Properties	Retail Properties	Commercial & Industrial Properties	Residential Properties	Facilities Management	Total
Ottawa/Montreal	890	1,430	420	—	13,800	16,540
Toronto	8,600	2,220	34	28,400	14,900	54,154
Calgary/Regina	5,000	2,020	750	400	5,350	13,520
Vancouver	1,175	1,700	3	790	3,250	6,918
Minneapolis	2,058	951	—	—	—	3,009
Denver	3,083	45	—	—	—	3,128
Boston	2,080	42	—	—	—	2,122
New York	9,242	425	—	—	—	9,667
Total	32,128	8,833	1,207	29,590	37,300	109,058

On October 30, 1998, Brookfield completed the acquisition of the remaining 30% interest in Brookfield Management Services Ltd. for a total cost of $18.2 million. This increased Brookfield's interest to 100%.

Brookfield LePage Johnson Controls, Brookfield's facilities management joint venture with Johnson Controls, increased its total facilities management portfolio to over 37 million square feet through the addition of contracts to manage 300 properties from Public Works Canada in June 1998. These new contracts will add to the income of Brookfield Management in 1999. Brookfield has now established itself as a leading provider of facility management services in Canada, which involves the complete operations maintenance and facilities planning for single-purpose and user-owned facilities, primarily aimed at reducing overall operating costs to the owner. Brookfield continues to pursue further facilities management contracts as the trend to outsourcing management of owned facilities grows in Canada.

In all of the company's property management operations, Brookfield endeavours to provide the highest standard of service to its clients and tenants. The objective of this program is to provide superior working environments so that corporations and their employees can achieve their goals. In doing so, Brookfield endeavours to attract and retain higher quality tenants to the properties it manages, and thereby achieve a commensurate increase in rental rates and asset values for property owners.

Land and Housing

Brookfield's land and housing operations are located in nine markets across North America. The aggregate book value of Brookfield's residential land under or held for future development is $653 million. Brookfield also has $843 million invested in inventory for the home-building business which consists of partially built homes and entitled building lots under sales contracts or held for sale in the near term. An analysis of the investment in residential land under or held for future development by market is as follows:

(Millions)	Land Under Development	Land Held for Development	Total
San Francisco Bay Area	$ 27	$ —	$ 27
Southland/Los Angeles	39	45	84
San Diego/Riverside	6	87	93
Virginia/Maryland	55	10	65
Florida	83	—	83
Denver	29	—	29
Toronto	48	21	69
Calgary	76	78	154
Edmonton	12	25	37
Other	4	8	12
Total	$ 379	$ 274	$ 653

Brookfield's housing operations are currently concentrated in 28 projects which are under active development. One new market was added to the operations in 1998, with the successful assembly of over 1,000 acres of land in Denver, Colorado, creating the Tallyn's Reach master-planned community. This project will begin the sale of lots to home builders in 1999. Specific information about these projects, which provide developed lots to Brookfield's home-building operations and lots for sale to other builders, is set out below:

San Francisco Bay Area

Palmia is a fully-entitled in-fill development in San Jose, California, consisting of 202 single-family detached and 108 attached condominium units. This site has convenient access to major employment centres such as San Jose and Silicon Valley. At December 31, 1998, a total of 143 units remain to be sold.

Brentwood Lakes is located in the east Bay Area in the City of Brentwood at the eastern foothills of Mt. Diablo. The project is planned for 798 single-family lots and includes a golf course and rolling hills with views. Lot and home sales will commence in 1999.

Northeast Ridge is a 228-acre master-planned residential community with views of San Francisco, and includes a 6.5-acre park and 566 units in three separate neighbourhoods connected by roads, bike lanes and hiking trails. At December 31, 1998, 487 units remain to be sold.

Southland/Los Angeles

La Vina is a 269-unit gated residential community near Los Angeles with outstanding views. The project borders San Gabriel Mountain and is 11 miles from downtown Los Angeles and three miles from Pasadena. Two product types are being constructed and 166 lots and homes have been sold by Brookfield to date.

Estancia and Virazon are a 186-unit development which are part of the new Dos Vientos master-planned community located in the city of Thousand Oaks, approximately 40 miles west of downtown Los Angeles. Brookfield's two communities benefit from larger lots and being adjacent to permanent open space and trails. At December 31, 1998, 178 units remain to be sold.

Tesoro Villas consist of 83 single-family homes located in Newport Coast, a premium resort and residential master-planned community on the Orange County Coast. The Newport Coast area benefits from its coastal frontage, rolling terrain and proximity to Newport Beach. At December 31, 1998, 50 units remain to be sold.

Coto de Caza is a premier master-planned community in which Brookfield is constructing 37 homes. This gated community with its rural nature and rolling terrain, is characterized by many large custom-home estates.

San Diego/Riverside

Scripps Ranch is a 1,200-acre residential master-planned community located in the foothills of the north-central San Diego metropolitan area and is bounded on the south by Miramar Lake. The property is 16 miles north of downtown San Diego along the Interstate 15 corridor. Brookfield is building out the final phases of this project, and operations are currently concentrated in seven neighbourhoods with 283 units remaining to be sold.

Calavera Hills is a 192-acre planned development located in the city of Carlsbad and is approximately two miles from the ocean and 30 miles north of San Diego. Home sales will commence in 1999.

Chase Ranch is a 228-acre master-planned development located in the City of Corona, County of Riverside, approved for 888 units and a seven-acre community park. All required streets and infrastructure to the site are complete and provide freeway access to Interstate 15. There are 180 lots remaining in this project.

Bella Lago consists of 61 semi-custom lagoon-front, single-family homes on large lots within the Aviara master-planned community of Carlsbad. The site has good access to major employment centres and the ocean. At December 31, 1998, 56 lots remain to be sold.

Virginia/Maryland

Braemar is a 940-acre master-planned community in Prince William County, Virginia, approximately 22 miles west of the Washington Beltway, that features large areas of open space, and extensive recreational facilities, schools and shopping. The land-use plan includes single-family units, townhouses, condominium and higher density multi-family type units in a zoned residential area with 2,575 lots and 181,000 square feet of commercial space remaining.

Northlake consists of 349 single-family and townhome lots located in Loudoun County near the Dulles Airport. Land development has commenced and home and lot sales will begin in 1999.

Russett Center is a master-planned residential community designed for over 3,000 housing units on 613 acres located in Anne Arundel County, midway between the cities of Baltimore and Washington, D.C. The community currently features a variety of recreational facilities, a major shopping centre and other amenities such as a family complex, library and day-care centre. At December 31, 1998, 680 lots remain to be sold.

Villages of Marlborough is part of a master-planned community that includes a golf course and other recreational amenities. Located in Prince George's County, Maryland, it is approximately seven miles east of the Washington Beltway and 17 miles from downtown Washington. The project includes over 1,700 townhouses, single-family homes and condominiums. At December 31, 1998, 382 homes remain to be sold.

Florida

The Point at the Waterways, Aventura, consists of five condominium towers with 660 units remaining to be sold. The typical unit square footage within the buildings range between 2,300 and 3,000 square feet with the ability to combine units. The buildings have an unobstructed view of the Atlantic Ocean from virtually every unit. The first two towers are built and occupied, and construction of the third tower, Atlantic III, began in 1998.

Presidential Estates is a 179-unit single-family in-fill golf course development in Aventura County, Florida. The golf course has been redesigned and sold to a golf course operator and the housing units are being constructed by Brookfield and one other home builder. At December 31, 1998, 163 units remain to be sold.

Metropolitan consists of 199 affordable condominium units located in the desirable Brickell Avenue corridor near downtown Miami. Sales commenced in late 1998 and the building will be completed in 2001.

Denver

Tallyn's Reach is a 1,000-acre master-planned residential community in suburban Denver planned for 2,691 units. The project will serve buyers from the growing Tech Center of southeast Denver and is on the recently opened E470 highway. The project has both rolling mountain and city views and will include over 120 acres of parkland. Development commenced in late 1998 with lot sales commencing in 1999.

Toronto

Whitby Shores is a 122-acre development situated in the town of Whitby, east of Toronto, and adjacent to Lake Ontario and the Lynde Marsh. Brookfield is selling a combination of single-family and townhome units which will offer attractive views, convenient access to local amenities, and hiking trails. The project has 418 remaining units to be sold.

Port Union Village consists of 75 acres originally comprising 594 units of single-family, semi-detached and townhouse units. The project includes a school site, parkland and waterfront trails and is situated close to Lake Ontario, easily accessible by Highway 401. There are 135 remaining lots in this project.

Harrowsmith is situated in the City of Oshawa, east of Toronto. Harrowsmith, started in 1987, will continue to be developed over the next five years. This award-winning community sells 45 and 50-foot lots featuring fully detached two-storey single-family homes. In total, there are 644 remaining lots in the project.

Calgary

McKenzie Towne is located in southeast Calgary on the east side of Deerfoot Trail. The project includes approximately 1,300 acres which will be developed into over 7,500 residential lots, representing a 20-year supply of inventory. The project is a neo-traditional development featuring a variety of single-family and lifestyle homes, and in 1999 the first phase of the 105,000 square foot Towne Centre will open.

Cranston, located south of the McKenzie communities in southeast Calgary, consists of almost 700 acres of land and will be developed into over 4,000 residential lots. This project overlooks Fish Creek Provincial Park and is an extension of the company's McKenzie Lake and Mountain Park projects which are now complete. Development commenced in 1998 with lot sales beginning in 1999.

Tuscany is located in northwest Calgary and consists of 852 acres which will be developed over the next 10 years. This project offers attractive city and mountain views, a wide range of product and excellent transportation access. Tuscany was the top selling new home community in north Calgary in 1998. At December 31, 1998, 3,456 lots remain in inventory.

Edmonton

Parkland is a 480-acre master-planned community in west Edmonton, which will be developed into over 2,000 lots. Development commenced in 1998 and lot sales will begin early in 1999.

Terwillegar Towne is a 400-acre development located in south Edmonton which opened in 1997. This project will feature many of the traditional design concepts and elements incorporated into the company's McKenzie Towne development. At December 31, 1998, 2,096 lots remain to be developed.

Ellerslie is a 1,600-acre mixed-use development located in south Edmonton. The development received entitlement approvals in 1998 and will yield over 500 acres of industrial land and 1,100 acres of residential development. Ellerslie is strategically located near major transportation routes and the Edmonton Airport. Development is expected to commence in late 1999.

Brookfield's home-building operations sold over 2,500 homes in 1998. Similar to 1997, sales and commitments for future homes increased in most operations. Total home sales were 2,529 compared with 1,955 in 1997, a 29% increase. Unit sales, total revenues and average home prices all increased from 1997, and are as follows:

	1998			1997		
	# of Units	Sales	Average Home Price	# of Units	Sales	Average Home Price
		(Millions)	*(Thousands)*		*(Millions)*	*(Thousands)*
San Francisco Bay Area	310	$ 173	$ 558	40	$ 24	$ 600
Southland/Los Angeles	383	185	483	40	13	325
San Diego/Riverside	528	210	398	381	105	276
Virginia/Maryland	490	140	286	417	82	197
Florida	63	30	476	241	99	411
Toronto	364	74	203	419	83	198
Calgary	391	59	151	259	37	143
Other	—	—	—	158	17	108
Total	2,529	$ 871	$ 344	1,955	$ 460	$ 235

Receivables and Other

Brookfield owns a portfolio of loans receivables and real estate related financial securities, which are predominantly secured by commercial real estate. These receivables are being liquidated over the next 18 months in order to repay debt and reinvest the capital in commercial properties. An analysis of these receivables and other assets is set out below:

(Millions)	1998	1997
Mortgages		
Office	$ 92	$ 63
Retail	96	121
Multi-family residential, hotel and other	90	180
Real estate loans and receivables	234	122
Non-core real estate assets	158	176
Secured corporate loans	32	73
Prepaids and other assets	282	268
Total	$ 984	$ 1,003

Liabilities and Equity

Brookfield's $11.7 billion of assets held at December 31, 1998 were financed with property debt, minority shareholders' interests, convertible debentures and shareholders' equity. Brookfield's net consolidated debt to total consolidated book capitalization was 64% at December 31, 1998. The following table summarizes Brookfield's capital structure at December 31, 1998:

(Millions)	1998	1997
Commercial property debt	$ 6,466	$ 4,357
Residential construction financing	624	577
Notes and shareholder advances	628	624
	7,718	5,558
Accounts payable	384	307
Minority shareholders' interests	922	772
Shareholders' equity and convertible debentures	2,687	2,508
Total	$ 11,711	$ 9,145

Commercial Property Debt

Total commercial property debt was $6.5 billion at December 31, 1998 compared to $4.4 billion at the end of 1997. The increase was as a result of the acquisition of additional office properties. During 1998, Brookfield refinanced over $1 billion of commercial property mortgages. The commercial debt at December 31, 1998 had an average interest rate of 7.3% and an average term of 14 years. Of the commercial property debt, virtually 100% is recourse only to specific properties with fixed-rate financing features, thereby reducing the overall financing risk to the company. Commercial property debt maturities for the next four years are predominantly regularly scheduled amortizations on mortages, and are as follows:

(Millions)	Weighted Average Interest Rate at Dec. 31, 1998	Maturing In: 1999	2000	2001	2002	2003	2004 & Beyond	1998 Total	1997 Total
Commercial property debt	7.3%	$ 153	$ 153	$ 143	$ 286	$ 1,030	$ 4,701	$ 6,466	$ 4,357

The largest property mortgages and details on these mortgages are as follows:

Commercial Property	Location	Interest Rate	Maturity Date	Brookfield Proportionate Mortgage Share	Mortgage Details
		(%)		*(Millions)*	
Chicago Place	Chicago	6.61	1999	$ 46	Recourse, floating rate
One World Financial Center	New York	7.51	2003	682	Non-recourse, fixed rate
Fifth Avenue Place	Calgary	9.04	2003	92	Non-recourse, fixed rate
Imperial Promenade	California	7.00	2004	38	Non-recourse, fixed rate
Exchange Tower	Toronto	7.61	2005	73	Non-recourse, fixed rate
320 Bay Street	Toronto	6.82	2005	30	Non-recourse, fixed rate
245 Park Avenue	New York	8.34	2006	444	Non-recourse, fixed rate
Republic Plaza	Denver	8.00	2006	298	Non-recourse, fixed rate
Canada Trust Tower	Toronto	7.07	2007	117	Non-recourse, fixed rate
World Trade Center	Denver	7.00	2007	61	Non-recourse, fixed rate
Bramalea City Centre	Toronto	11.13	2008	32	Non-recourse, fixed rate
Petro-Canada Centre	Calgary	6.88	2008	110	Non-recourse, fixed rate
Bay Wellington Tower	Toronto	6.40	2013	300	Non-recourse, fixed rate
Two World Financial Center	New York	6.91	2013	1,372	Non-recourse, fixed rate
Four World Financial Center	New York	6.95	2013	665	Non-recourse, fixed rate
Exchange Place	Boston	6.91	2023	250	Non-recourse, fixed rate
Minneapolis City Center	Minneapolis	6.84	2027	206	Non-recourse, fixed rate
Dain Bosworth	Minneapolis	7.45	2027	125	Non-recourse, fixed rate
One Liberty Plaza	New York	6.90	2027	416	Non-recourse, fixed rate
Fleet Center	Boston	7.00	2028	283	Non-recourse, fixed rate
Other property mortgages				826	Various terms
Total commercial mortgages				$ 6,466	

Residential Construction Financing

Residential construction financing relates to construction and development loans which are repaid from the sales proceeds from building lots and homes. As new homes are constructed, further loan facilities are arranged on a rolling basis. Total residential housing debt at December 31, 1998 was $624 million compared with $577 million in 1998.

Shareholder and Other Advances

Shareholder and other advances increased slightly to $628 million at December 31, 1998, largely due to the increase in exchange rates of the Canadian and US dollars. $225 million of shareholder loans bear interest at floating rates which are drawn under a five-year termable revolving facility. US$150 million is convertible

at either party's option into a fixed-rate financing at 9.75% repayable in 2015. The balance of approximately $400 million will be repaid largely from the proceeds generated from the sale of residential land over the next five years.

Minority Shareholders' Interests

Minority shareholders' interests provide Brookfield with an additional source of long-term capital because of the perpetual nature of these instruments. Minority shareholders' interests represent the portion of consolidated subsidiaries not owned by Brookfield. The following table details the components of these interests as at December 31, 1998 and 1997:

(Millions)	1998	1997
Participation by minority shareholders in the common equity of subsidiaries		
Gentra Inc.	$ 233	$ 193
Brookfield Financial Properties	136	—
Carma Corporation	14	12
Brookfield Management Services	—	28
	383	233
Perpetual preferred shares of subsidiaries owned by other shareholders		
Gentra Inc.	382	382
Carma Limited	102	102
Brookfield Homes	55	55
	539	539
Total	$ 922	$ 772

Shareholders' Equity and Convertible Debentures

Shareholders' equity and convertible debentures totalled $2.7 billion at December 31, 1998 compared with $2.5 billion at December 31, 1997. The increase of $179 million was due to income being retained in excess of dividends paid out and because of the issuance of $74 million of convertible debentures.

Shareholders' equity includes $366 million of perpetual preferred shares, of which $225 million held by EdperBrascan Corporation, the company's principal shareholder, have exchange features which permit them to be tendered as currency in subscribing for common shares under a share offering by the company. The subordinated convertible debentures of $374 million are convertible into 22.6 million common shares at an average price of $16.56 per share.

The company has 133 million issued and outstanding common shares. The fully-diluted book value per common share at December 31, 1998 was $14.82 compared with $13.91 at December 31, 1997. The market capitalization of Brookfield's equity base, including convertible debentures, was $3.5 billion at December 31, 1998.

Results of Operations

Cashflow from operations increased to $290 million in 1998 compared with $164 million in 1997. Net income was $189 million compared with $109 million in 1997. A summary of the principal components of the company's operating results is as follows:

(Millions)	1998	1997	% Change
Commercial Property Operations			
Rental revenues	$ 1,261	$ 845	49%
Expenses	511	329	55%
	750	516	45%
Land and Housing			
Home and lot sales	1,010	635	59%
Expenses	930	588	58%
	80	47	70%
Other Revenues	92	26	254%
Operating Income	922	589	56%
Unallocated Interest, Administration and Minority Interest Expenses	632	425	49%
Cashflow From Operations	290	164	77%
Depreciation and amortization	73	43	70%
Taxes and other provisions	28	12	133%
Net Income	$ 189	$ 109	73%

Commercial Property Operations

Commercial property rental revenues increased 49% to $1.261 billion. As a result, commercial property net operating income rose 45% in 1998. The increase resulted from the acquisition of commercial properties, as well as higher average occupancy levels, an increase in net effective rental rates on space released and contractual step-ups in existing leases in the portfolio. As the balance of the company's property portfolio is leased, free-rent periods expire and contractual increases in rental rates occur, rental contributions are projected to increase annually over the next two years.

Land and Housing

Land and housing revenues increased 59% to $1,010 million, resulting in a 70% increase in net operating income to $80 million. Total lot sales for 1998, including lots sold to other builders, were 4,461 units compared with 4,658 units in 1997, and total home sales were 2,529 for the year compared with 1,955 in 1997. As these operations mature, equity returns are expected to increase.

The breakdown of the lot and home sales by region is as follows:

	Home Sales		Lot Sales	
(Units)	1998	1997	1998	1997
San Francisco Bay Area	310	40	315	41
Southland/Los Angeles	383	40	449	40
San Diego/Riverside	528	381	568	1,218
Virginia/Maryland	490	417	763	578
Florida	63	241	239	241
Toronto	364	419	541	669
Calgary	391	259	1,208	968
Edmonton	—	—	378	366
Other	—	158	—	537
	2,529	1,955	4,461	4,658

In California, a combination of a strong market and the impact of a full year's operation from new business groups in the San Francisco Bay Area and Southland/Los Angeles contributed to an increase in 1998 home sales of 760 units. The Calgary market continued to record strong results with a 51% increase in home sales and over 1,200 lot sales, a 25% increase over 1997. These increases in sales were offset by slower sales in Toronto and Florida which resulted from a four month strike in Toronto and the timing of condominium construction in Florida.

Expenses

Net interest capitalized on home building and land development, which is capitalized during development and expensed as homes and lots are sold, was $6 million for 1998 compared with $3 million in 1997.

Administrative and development costs increased due to the expansion of the company's property management business and the expanded commercial portfolio. These costs are expected to decline over the next few years as operations in both Canada and the United States are rationalized and further efficiencies are attained.

Cashflow Analysis and Financial Liquidity

For the year ended December 31, 1998, funds generated from operations increased by $126 million to $290 million or $1.68 per fully diluted common share.

With the completion of over $1 billion of property financings in 1998, virtually all of Brookfield's mortgages are now fixed-rate and non-recourse with an average life of 14 years.

Brookfield has no material cash obligations other than to fund interest and scheduled principal repayments on its debt. Brookfield's operating cashflow, financial assets and future cash recoveries from its land and housing operations are available to reduce shareholder and mortgage debt levels as well as invest in additional commercial real estate properties should attractive opportunities arise.

Real Estate Industry and Risks

Commercial real estate rental rate increases have been fuelled by sustained economic growth during the past five years combined with a lack of new supply of leasable commercial space. National vacancy rates for Class A downtown office space in both Canada and the United States are now at their lowest levels in a decade. As a result of unsettled capital markets in the last half of 1998, most potential developments have been stalled in the pre-development stage.

This has resulted in rental rates for office space in most major financial centres in both Canada and the United States being sustained at their highest levels in the past decade. Despite this, there is some downtown development in select markets which will affect rental rates in these markets.

In the land and housing businesses, markets have strengthened, as interest rate reductions have increased affordability to the highest level in the decade.

The real estate capital markets have also undergone a transformation over the past five years. In both Canada and the United States, the debt securitization market and increased demand for real estate investment trusts have provided additional sources of financing to the real estate industry. Capital availability has been more constrained since August 1998.

While the outlook for the real estate industry is positive, there are a number of risks associated with the business.

Interest Rates

Interest rates affect the profitability of commercial properties, land and housing. Interest paid on mortgages secured by commercial properties represent a significant cost in the ownership of properties. As a result, the company has fixed a substantial amount of its financing costs. Interest rates also have an important impact on investor attitudes. The level of interest rates influences the capitalization rates paid by investors for commercial properties. Interest rates can also affect the ability of consumers to afford new homes. As a result, an increase in interest rates tends to negatively impact the company's operations.

Lease Maturities

Brookfield currently has 4% of its commercial property space available for leasing, and approximately 4% maturing in each of the next four years. While this number is not large in proportion to the total portfolio and portfolio rental rates are on average below market rates, cashflows would decline if market rental rates at the time of rollover are less than those currently in place.

Consumer Confidence

The North American economy affects all aspects of the real estate business. If a disruption in economic growth occurs, this will affect the demand for office space, and hence the rental rates achieved in the company's property portfolio. In the land and housing business, a decline in economic growth would cause decreased consumer confidence which could affect the volume of housing sales as well as the pricing of residential lots.

Year 2000

The assessment of the implications of the Year 2000 on the operations of Brookfield commenced in 1997. The Year 2000 plan involves both a review of those systems utilized in the processing of accounting and administrative data as well as the systems which operate our facilities and impact the health, safety and comfort of our tenants.

Brookfield defines Year 2000 compliance as follows: building operations and information systems must perform without disruption as a result of the change to the Year 2000; date formats must be consistent for dates prior to, during and beyond Year 2000; interfaces must specify the century; and the Year 2000 must be recognized as a leap year.

The company's approach to the Year 2000 has five components: completion of an inventory of potentially impacted date-sensitive systems; an assessment of the impact of the Year 2000 on the system; the development of a remediation plan for those systems identified as deficient with respect to the definition of Year 2000 readiness; testing all systems identified as being exposed to potential risk due to the change in the millennium; and finally, the development of contingency plans to allow continued uninterrupted business operations in the event of failure due to unplanned events. The company plans to have substantially completed its Year 2000 preparations by June 30, 1999.

Brookfield has completed an inventory of hardware and software and all non-compliant systems have been identified. An assessment has also been conducted of the business risk associated with each non-compliant system, and corrective action plans have been developed to address technical environments that require replacement or modification. All current information technology-related purchases require that the goods and services be Year 2000 compliant.

Brookfield made the decision in 1996 to convert all of the company's owned properties and managed properties to an accounting and lease administration system that is represented to be Year 2000 compliant. Brookfield completed conversion on all owned properties in 1997, and the conversion of the managed properties was completed in 1998.

Building systems that are date-sensitive have been identified, and confirmation of Year 2000 compliance from the manufacturers has been requested for any systems considered to be at risk on a building-specific basis. Building security, elevator controls, lighting and mechanical systems and a number of other areas have been reviewed. Responses are being compiled for each building and remedial action is under way. Remedial action has been completed except for specific items that are scheduled to be completed by mid-year 1999. Field testing of systems is being conducted where required.

Providers of outside services such as electricity and natural gas utilities have been asked for assurances that there will be no Year 2000 related interruptions in service. Although Brookfield has no control over such external factors, transition and contingency plans will be developed for each building in the first quarter of 1999 with a view to occupant safety and comfort on December 31, 1999.

A company-wide Year 2000 reporting system based on industry standard recommendations has been implemented. This is being used to document the company's Year 2000 readiness status.

The overall incremental costs to Brookfield to ready the company for the Year 2000 are expected to be approximately $1 million, with the bulk of this expenditure focussed on testing activities.

Outlook

Management is confident that the company's financial performance will continue to improve in 1999. Based on the current property portfolio and prevailing economic conditions, total cashflow from operations is expected to increase in 1999. Through further management initiatives, it is expected that Brookfield will be able to maintain the stability of its income and continue to exceed industry growth rates.

Steven J. Douglas
Senior Vice President and Chief Financial Officer

Management's Responsibility for the Financial Statements

The consolidated financial statements and management's financial analysis and review contained in this annual report are the responsibility of the management of the company. To fulfil this responsibility, the company maintains a system of internal controls to ensure that its reporting practices and accounting and administrative procedures are appropriate, and provide assurance that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgement in the circumstances. The financial information presented throughout this annual report is consistent with the information contained in the consolidated financial statements.

Deloitte & Touche LLP, the independent auditors appointed by the shareholders, have audited the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report as auditors is set out below.

The consolidated financial statements have been further examined by the board of directors and by its audit committee which meets regularly with the auditors and management to review the activities of each. The audit committee, which is comprised of four directors who are not officers of the company, reports to the board of directors.

J. Bruce Flatt
President and Chief Operating Officer

Steven J. Douglas
Senior Vice President and Chief Financial Officer

February 9, 1999

Auditors' Report

To the Shareholders,

We have audited the consolidated balance sheets of Brookfield Properties Corporation as at December 31, 1998 and 1997 and the consolidated statements of income, retained earnings and cashflow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in Canada.

Deloitte & Touche LLP
Chartered Accountants

Toronto, Canada
February 9, 1999

Consolidated Balance Sheet

December 31 (Millions)	Note	1998	1997
Assets			
Commercial properties	2	$ 9,026	$ 6,395
Residential home building		843	691
Development land	3	653	756
Receivables and other	4	984	1,003
Cash and cash equivalents		205	300
		$ 11,711	$ 9,145
Liabilities			
Commercial property debt	5	$ 6,466	$ 4,357
Residential construction financing	6	624	577
Shareholder advances	7	628	624
		7,718	5,558
Accounts payable		384	307
Capital Base and Minority Shareholders' Interests			
Minority shareholders' interests	8	922	772
Subordinated convertible debentures	9	374	300
Preferred shares	10	366 2313	366
Common shares	10	1,947	1,842
		3,609	3,280
		$ 11,711	$ 9,145

On behalf of the board,

Gordon E. Arnell
Director

David A. Lewis
Director

Consolidated Statement of Income

Years ended December 31 (Millions, except per share information)	1998	1997
Revenues		
Commercial property operations	$ 1,261	$ 845
Land and housing	1,010	635
Interest and other income	92	26
	2,363	1,506
Expenses		
Commercial property operations	511	329
Land and housing	930	588
Interest	429	329
Administrative and development	94	62
Minority shareholders' interests	109	34
	2,073	1,342
Cashflow From Operations	290	164
Depreciation and amortization	73	43
Taxes and other non-cash provisions	28	12
Net Income	$ 189	$ 109
Net Income Per Basic Share	$ 1.06	$ 0.67
Net Income Per Fully Diluted Share	$ 1.04	$ 0.67

Consolidated Statement of Retained Earnings

Years ended December 31 (Millions)	1998	1997
Beginning of Year – retained earnings	$ 13	$ —
Net income	189	109
Share issue costs	—	(39)
Shareholder distributions		
Convertible debenture interest	(20)	(16)
Dividends paid on preferred shares	(29)	(28)
Dividends paid on common shares	(32)	(13)
End of Year – retained earnings	$ 121	$ 13

Consolidated Statement of Cashflow

Years ended December 31 (Millions)	1998	1997
Operating Activities		
Cashflow from operations	$ 290	$ 164
Recovery from land and housing	930	588
Investment in land and housing	(835)	(512)
	385	240
Financing Activities and Capital Distributions		
Net long-term debt arranged (repaid)	258	(443)
Shareholder advances repaid	(20)	(481)
Convertible debentures issued	74	300
Common shares issued, net of issue costs	3	1,349
Minority shareholders' interests	30	(38)
Convertible debenture interest	(20)	(16)
Preferred share dividends	(29)	(28)
Common share dividends	(32)	(13)
Cashflow from financing activities and capital distributions	264	630
Investment Activities		
Commercial property tenant improvements	(44)	(53)
Acquisition and disposition of real estate (net)	(659)	(537)
Redevelopment expenditures	(83)	(16)
Other investments and liabilities	42	(97)
Cashflow used in investments	(744)	(703)
Increase (decrease) in cash resources	(95)	167
Opening cash and cash equivalents	300	133
Closing cash and cash equivalents	$ 205	$ 300

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

(a) General

The consolidated financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants. The company's accounting policies and its financial disclosure are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies.

(b) Principles of Consolidation

The consolidated balance sheet and statements of income, retained earnings and cashflow and the corresponding note disclosure have been presented as at and for the years ending December 31, 1998 and 1997.

The consolidated financial statements include:

(i) the accounts of all subsidiaries of the company including its wholly-owned commercial property operations and home building subsidiaries, as well as Gentra Inc. ("Gentra"), Brookfield Management Services Ltd. ("Brookfield Management"), Carma Corporation ("Carma"), and Brookfield Financial Properties Inc. ("Brookfield Financial Properties") since March 1998 (see Note 11), formerly World Financial Properties; and

(ii) the accounts of all incorporated and unincorporated joint ventures and partnerships to the extent of the company's proportionate interest in their respective assets, liabilities, revenue and expenses, including the company's investment in Brookfield Financial Properties until March 1998 (see Note 11).

The company's ownership interests in operating entities which are not wholly owned are as follows:

(i) *Brookfield Financial Properties:* The company owns a 90% (1997 – 70%) limited partnership equity and general partnership interest in Brookfield Financial Properties.

(ii) *Gentra:* The company owns 45% (1997 – 45%) of the common shares of Gentra.

(iii) *Brookfield Management:* The company owns 100% (1997 – 70%) of the common shares of Brookfield Management.

(iv) *Carma:* The company owns 80% (1997 – 77%) of the common shares of Carma.

(c) Properties

(i) *Commercial Properties*

Commercial properties held for investment are carried at the lower of cost less accumulated depreciation and net recoverable amount. Depreciation on buildings is provided on the sinking-fund basis over the useful lives of the properties to a maximum of 60 years. The sinking-fund method provides for a depreciation charge of an annual amount increasing at the compounded rate of 5% per annum. Depreciation is determined with reference to each rental property's carried value, remaining estimated useful life and residual value. Tenant improvements and re-leasing costs are deferred and amortized over the lives of their respective leases.

The net recoverable amount represents the undiscounted estimated future net cashflow expected to be received from the ongoing use of the property and its residual value. To arrive at this amount, the company projects the cashflow for each property over a maximum of ten years and includes an estimate of the residual proceeds from a sale at the end of the period. The projections take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.

(ii) *Commercial Properties Under Development*

Commercial properties under development consist of properties for which a major repositioning program is being conducted and properties which are under construction. These properties are recorded at the lower of cost, including pre-development expenditures and the net recoverable amount.

(iii) *Residential Development Land*

Residential development land is recorded at the lower of cost and estimated net realizable value. Costs relating to land designated for residential uses are allocated to the saleable acreage of each project or subdivision in proportion to the anticipated revenue.

(iv) *Homes and Other Properties Held for Sale*

Homes and other properties held for sale, which include properties subject to sales agreements, are recorded at the lower of cost and net realizable value. Cash received relating to homes and other properties held for sale is offset against the cost of these properties.

(d) Capitalized Costs

Costs are capitalized on commercial properties for which a major redevelopment program is being conducted, residential properties which are under development, home building properties and properties held for sale, including all expenditures incurred in connection with the acquisition, development, construction and initial pre-determined leasing period. These expenditures consist of all direct costs, interest on debt that is related to these assets and certain administrative expenses. Revenues relating specifically to such properties, except homes and the sale of building lots, are treated as a reduction of costs.

(e) Revenue Recognition

Revenue from a commercial property is recognized upon the earlier of attaining a break-even point in cash-flow after debt servicing, or the expiration of a reasonable period of time following substantial completion, subject to the time limitation determined at the time of approval of the project. Prior to this, the property is categorized as a rental property under development, and revenue related to such property is applied to reduce development costs.

The company has retained substantially all of the risks and benefits of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Rental revenue includes percentage participating rents and recoveries of operating expenses, including property, capital and large corporation taxes.

Income from the sale of land and other properties is recorded when the collection of the sale proceeds is reasonably assured and all other significant conditions are met. Properties which have been sold, but for which these criteria have not been satisfied, are included in home building assets.

(f) Foreign Exchange

The company's operations in the United States are self-sustaining. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at the weighted average rate for the year. Gains or losses arising from the translation of US dollar denominated debt are amortized over the life of the debt and included in other revenues.

(g) Per Share Calculations

Net income per fully diluted common share has been calculated after providing for preferred share dividends, convertible debenture interest and minority shareholders' interests, using the weighted average number of fully diluted common shares outstanding of 157,957,521 (1997 – 115,640,262).

(h) Cash and Cash Equivalents

Cash and cash equivalents include $121 million (1997 – $72 million), which is designated for principal and interest payments on mortgages and tenant improvement expenditures, unless otherwise approved by the respective property mortgage holder. The balance also includes securities of $27 million (1997 – $14 million), which are carried at a value approximating market.

(i) Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires estimates and assumptions that affect the carried amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

Note 2: Commercial Properties

(Millions)	1998	1997
Commercial properties	$ 9,278	$ 6,570
Less: accumulated depreciation	(252)	(175)
Total	$ 9,026	$ 6,395

(a) The decline of the Canadian dollar in relation to the US dollar during 1998 caused the translated value of US dollar denominated assets and liabilities to increase. As a result, from December 31, 1997 to December 31, 1998, the carrying cost of properties increased by $375 million (1997 – $156 million) when translated into Canadian dollars. This is offset by a corresponding increase in carrying value of debt which finances these assets.

(b) Three rental properties in the World Financial Center, carried at a net book value of approximately $2,932 million (1997 – $2,022 million) are situated on land held under leases or other agreements, largely expiring after the year 2069. Minimum rental payments on land leases are approximately $26 million annually for the next five years and $1,578 million in total.

(c) Commercial properties are carried net of $46 million (1997 – $57 million) of deferred credits which arose on the acquisition of the company's ownership interests in certain commercial properties. The deferred credits relate to lease incentives in place at the time of acquisition.

(d) Construction costs of $54 million, interest costs of $0.5 million and $1 million of general and administrative expenses were capitalized to the commercial property portfolio for properties undergoing redevelopment in 1998. No costs were capitalized in 1997.

(e) The company acquired a controlling interest in Brookfield Financial Properties in 1998, and accordingly, commenced full consolidation (Note 11).

(f) The following amounts represent the company's proportionate interest in incorporated and unincorporated joint ventures and partnerships.

(Millions)	1998	1997
Assets	$ 1,193	$ 3,661
Liabilities	875	2,670
Operating revenues	188	551
Operating expenses	61	200
Net income	67	28
Cashflow from operating activities	75	111
Cashflow from financing activities	106	(55)
Cashflow from investing activities	(205)	(51)

Note 3: Development Land

Development land includes residential land under development and residential land held for development, largely in later phases of master-planned communities, which will either be sold as lots to home builders or used in the company's home-building operations.

(Millions)	1998	1997
Residential land under development	$ 379	$ 515
Residential land held for development	274	241
Total	$ 653	$ 756

The residential land development process includes the entitlement and processing of land. The company capitalizes interest and administrative and development costs which are expensed as building lots and homes are sold. During 1998, after interest recoveries of $72 million (1997 – $63 million), the company capitalized a net $6 million (1997 – $3 million) of interest and capitalized a net $2 million (1997 – $1 million net recovery) of administrative and development costs from the sale of residential homes and developed land.

The company, through its subsidiaries, is contingently liable for obligations of its associates in its residential development land joint ventures. In each case, all of the assets of the joint venture are available first for the purpose of satisfying these obligations with the balance shared among the participants in accordance with pre-determined joint venture arrangements.

Note 4: Receivables and Other

Receivables and other consist of assets which are held for investment purposes until opportunities arise to invest this capital in the commercial property business. A description of these assets is as follows:

(Millions)	Weighted Average Interest Rate	**1998**	1997
Real estate mortgages			
Office	10.3%	**$ 92**	$ 63
Retail	8.5%	**96**	121
Multi-family residential, hotel and other	8.4%	**90**	180
Real estate loans and receivables	6.7%	**234**	122
Non-core real estate assets	—	**158**	176
Secured corporate loans	6.0%	**32**	73
Prepaids and other assets	—	**282**	268
Total		**$ 984**	$ 1,003

The majority of the secured real estate mortgages, loans and receivables mature prior to 2002.

Note 5: Commercial Property Debt

The company's long-term commercial property debt outstanding and principal repayments at December 31, 1998 are as follows:

(Millions)	Weighted Average Interest Rate at Dec. 31, 1998	1999	2000	2001	2002	2003	2004 & Beyond	**1998 Total**	1997 Total
Commercial property debt	7.3%	$ 153	$ 153	$ 143	$ 286	$ 1,030	$ 4,701	**$ 6,466**	$ 4,357

Long-term debt includes $5,475 million (1997 – $3,457 million) repayable in US dollars of $3,579 million (1997 – $2,418 million). The weighted average interest rate at December 31, 1997 was 7.7%.

Note 6: Residential Construction Financing

Residential construction financing was $624 million at December 31, 1998 (1997 – $577 million). Residential construction financing relates to construction and development loans which are repaid out of the proceeds from the sale of building lots, single-family and condominium homes. As new homes are constructed, further loan facilities are arranged on a rolling basis. The weighted average interest rate on these facilities as at December 31, 1998 was 7.7% (1997 – 8.7%). Of these facilities, $327 million are due by the end of 1999, and the remaining balances are due prior to 2003.

Note 7: Shareholder and Other Advances

Shareholder and other advances consist of the following:

(Millions)	1998	1997
Shareholder advances		
Revolving five-year term facilities	$ 225	$ 225
Other, including land and housing financing	268	265
Term notes	135	134
Total	$ 628	$ 624

The revolving five-year term facilities and other facilities bear interest at the prime rate. US$150 million of this balance is convertible at either party's option into a fixed-rate financing at 9.75% repayable in 2015. Interest expense includes $19 million (1997 – $19 million) of interest relating to shareholder advances. $100 million of the term notes bear interest at the 90 day bankers acceptance rate plus 1% and the balance bear interest at a rate of 6.5%.

Note 8: Minority Shareholders' Interests

Minority shareholders' interests includes common equity and perpetual preferred share equity of subsidiaries owned by others. Minority shareholders' interests are comprised of the following:

(Millions)	Minority Ownership	1998	1997
Participation by minority shareholders in the common equity of subsidiaries			
Gentra Inc.	55%	$ 233	$ 193
Brookfield Financial Properties	10%	136	—
Carma Corporation	20%	14	12
Brookfield Management Services	—	—	28
		383	233
Perpetual preferred shares of subsidiaries owned by other shareholders			
Gentra Inc.		382	382
Carma Limited		102	102
Brookfield Homes		55	55
		539	539
Total		$ 922	$ 772

Note 9: Subordinated Convertible Debentures

The company has issued the following subordinated convertible debentures:

Amount *(Millions)*	Interest Rate	Issue Date	Maturity Date	Common Share Conversion
$ 300	6%	February 1997	February 2007	19,998,067
$ 74	6%	June 1998	June 2008	2,622,100

(a) February 2007 Debentures

The February 2007 debentures were issued on February 14, 1997.

This series of $300 million of convertible debentures mature on February 14, 2007, bear interest at the rate of 6% per annum, payable semi-annually on June 30 and December 31. The company, at its option, has the right to call for a subscription for common shares at market from its principal shareholder to fund these interest payments.

The February 2007 debentures are not redeemable prior to February 14, 2000. Thereafter, and until February 14, 2002, the debentures are redeemable by the company at par plus accrued and unpaid interest, but only if the weighted average daily closing price, at which the common shares of the company have traded on The Toronto Stock Exchange during 20 consecutive trading days, exceeds 125% of the conversion price. After February 14, 2002, the debentures are redeemable by the company at par plus accrued and unpaid interest.

On maturity or redemption, the company has the right, at its option, to deliver common shares of the company at 95% of the weighted average daily closing price, in return for the amount owing on the debentures in February 2007.

Each debenture is convertible into common shares at the option of the holder at any time prior to the close of business on the earlier of February 13, 2007 and the last business day immediately preceding the date fixed for redemption, at a conversion price of $15.00 per share, being a rate of approximately 6.67 common shares per $100 principal amount of debentures.

During 1998, a face amount of $30,000 of the February 2007 debentures were converted into 2,000 common shares of the company.

(b) June 2008 Debentures

On June 30, 1998, the company issued a $74 million (US$50 million) convertible debenture as partial consideration in the acquisition of a 19% interest in Brookfield Financial Properties. These debentures mature on June 30, 2008 and bear an annual interest rate of 6%. The company has the right, at its option, to pay both interest and principal repayments in common shares of the company issued at market value at the time.

The debentures are not redeemable on or prior to June 26, 2001. After June 26, 2001, the debentures are redeemable at par plus accrued and unpaid interest, provided that the current market price of the common shares on the date on which such notice of redemption is first given is not less than 109% of the conversion price.

On maturity or redemption, the company has the right, at its option, to deliver common shares of the company at 95% of the weighted average daily closing price, in return for the principal amount owing on the debentures.

Note 10: Preferred Shares and Common Shares

The authorized share capital consists of:

6,312,000	Class A redeemable voting preferred shares
6,000,000	Class AA redeemable preferred shares
Unlimited	Class AAA redeemable preferred shares
Unlimited	Common voting shares

The issued and outstanding share capital consists of:

(Millions, except per share information)		1998	1997
Preferred Shares			
6,312,000	Class A preferred shares bearing a cumulative dividend rate of 7¼%	$ 16	$ 16
2,000,000	Class AA Series E preferred shares bearing a cumulative dividend rate of 70% of bank prime	50	50
3,000,000	Class AAA Series A preferred shares bearing a cumulative dividend rate of 9%	75	75
3,000,000	Class AAA Series B preferred shares bearing a cumulative dividend rate of 9% and exchangeable into common shares of the company on a public offering	75	75
6,000,000	Class AAA Series C and D preferred shares bearing a cumulative dividend rate of 8% and exchangeable into common shares of the company on a public offering	150	150
		366	366
Common Shares			
133,071,717	Common shares (1997 – 132,831,971)	1,641	1,638
Retained earnings, contributed surplus and cumulative translation adjustment		306	204
		1,947	1,842
Total		$ 2,313	$ 2,208

During 1998, the company issued 45,100 shares (1997 – 40,667) on the exercise of options issued under the company's Management Share Option Plan for cash proceeds of $0.4 million (1997 – $0.3 million) and issued 192,644 common shares on conversion of convertible debentures of a subsidiary pursuant to the privatization of that subsidiary. The company also issued 2,002 common shares as a result of the conversion of $30,000 face amount of the February 2007 debentures. As at December 31, 1998, 1,758,700 (1997 – 904,500) common shares were reserved for issuance pursuant to the company's share option plan at an average exercise price of $13.00 (1997 – $6.58) per common share. These options expire prior to 2009.

During 1997, the company completed five equity issues for $1,388 million, pursuant to which 80,556,003 common shares were issued at an average price of $17.23 per share as follows:

Issue Date	Type	Shares Issued	Price Per Share	Total Proceeds Before Costs *(Millions)*
February 14, 1997	Public Issue	23,077,000	$ 13.00	$ 300
May 28, 1997	Public Issue	19,672,132	15.25	300
July 25, 1997	Public Issue	21,052,632	19.00	400
September 30, 1997	Private Placement	4,604,239	19.00	87
October 17, 1997	Public Issue	12,150,000	24.75	301
Total		80,556,003		$ 1,388

During 1997, the company also issued 784,435 common shares on the acquisition of the 4% minority interest of Brookfield Homes, and 104,407 common shares pursuant to the company's Management Share Purchase Plan. The company also issued 2.9 million warrants during 1997 to purchase common shares as part of the consideration for the company's acquisition of an additional 24% interest in Brookfield Financial Properties. These warrants are exercisable at $15.00 per share and expire on July 31, 2003. A partner of

Brookfield Financial Properties has the right to exchange its interests for 3,580,600 shares of the company in 2003.

Retained earnings, contributed surplus and cumulative translation adjustment include a foreign currency cumulative translation adjustment of $30 million (1997 – $36 million) and contributed surplus of $155 million (1997 – $155 million).

NOTE 11: 1998 CORPORATE ACQUISITIONS

During 1998, the company acquired a 19% interest in Brookfield Financial Properties. During 1997, the company acquired an additional 24% interest in Brookfield Financial Properties. During 1997, the company also acquired a 45% interest in Gentra from Trilon Financial Corporation on normal market terms which has been recorded at exchange value. All acquisitions were accounted for under the purchase method of accounting.

The net assets acquired as a result of the acquisitions and the consideration are as follows:

(Millions)	Brookfield Financial Properties March 1998	Brookfield Financial Properties April 1997	Gentra September 1997
Assets Acquired			
Commercial properties	$ 1,462	$ 1,011	$ 804
Cash and restricted cash	10	47	52
Other assets	66	16	400
	1,538	1,074	1,256
Liabilities Assumed			
Mortgage debt	1,155	848	303
Accounts and notes payable	16	23	79
Minority interests	118	—	562
	1,289	871	944
Net Assets Acquired	$ 249	$ 203	$ 312
Consideration Paid			
Cash	$ 175	$ 203	$ 225
Convertible debentures	74	—	—
Common shares	—	—	87
Total	$ 249	$ 203	$ 312

NOTE 12: TAX AND OTHER PROVISIONS

The income tax provisions included in the determination of net income are computed by applying the expected Canadian federal and provincial statutory rates to the company's proportionate share of pre-tax income. The actual effective tax rate differs from the statutory rate, due primarily to items taxed at capital rates and items not subject to income tax and the application of non-capital and net capital losses carried forward.

Current year's provision for tax amounted to $28 million (1997 – $12 million).

The company and its Canadian subsidiaries have $813 million (1997 – $885 million) of non-capital losses available to reduce taxable income which may arise in the future, the benefit of which has not been recognized in the financial statements. These non-capital losses largely expire over the period to 2005. The company's US subsidiaries have $635 million (1997 – $757 million) of non-capital losses available to reduce taxable income which may arise in the future and expire over the period to 2013. The benefit of these losses has not been reflected in these financial statements.

NOTE 13: SEGMENTED INFORMATION

The company and its subsidiaries operate in Canada and the United States in two major industry segments:

- the ownership of rental properties, largely office properties; and
- the building of homes for sale to customers and the acquisition, development and sale of residential lots to home builders.

The following summary presents segmented financial information for the company's principal areas of business by industry and geographic location:

	Canada		United States		Total	
(Millions)	1998	1997	1998	1997	1998	1997
Commercial Property Operations*						
Rental revenues	$ 331	$ 207	$ 930	$ 638	$ 1,261	$ 845
Expenses	161	77	350	252	511	329
	170	130	580	386	750	516
Land and Housing						
Home and lot sales	226	230	784	405	1,010	635
Expenses	191	201	739	387	930	588
	35	29	45	18	80	47
Other Revenues	68	12	24	14	92	26
Operating Income	273	171	649	418	922	589
Depreciation and amortization	27	13	46	30	73	43
Taxes and other provisions	13	5	15	7	28	12
Income before unallocated costs	233	153	588	381	821	534
Unallocated interest, administration and minority interest expenses					632	425
Net Income					$ 189	$ 109
Assets						
Commercial properties	$ 2,124	$ 1,962	$ 6,902	$ 4,433	$ 9,026	$ 6,395
Land and housing	337	317	1,159	1,130	1,496	1,447
Receivables and other	484	373	500	630	984	1,003
Cash and cash equivalents	78	216	127	84	205	300
	$ 3,023	$ 2,868	$ 8,688	$ 6,277	$ 11,711	$ 9,145
Commercial property tenant improvements	$ 16	$ 13	$ 28	$ 40	$ 44	$ 53
Acquisition and disposition of real estate (net)	61	312	598	225	659	537
Redevelopment and capital expenditures	48	11	35	5	83	16

**During 1998, rental revenues from Merrill Lynch & Company Inc. accounted for 12% (1997 – 12%) of consolidated revenue.*

Other Information

Note 14: Cashflow From Operations Differences

Cashflow from operations as reported recognizes rental revenue over the term of a lease as it comes contractually due. Applying the straight-line method of rental revenue recognition on a proforma basis would increase cashflow from operations for fully diluted common shareholders to $317 million (1997 – $184 million) from the reported level of $290 million (1997 – $164 million):

Years ended December 31 *(Millions, except per share amounts)*	1998	1997
Cashflow from operations – as reported	$ 290	$ 164
Adjustment to reflect straight-line rental revenue	30	21
Minority shareholders' interests	(3)	(1)
Cashflow from operations for fully diluted common shareholders – proforma	$ 317	$ 184
Cashflow from Operations Per Share		
Basic and fully diluted – proforma	$1.82	$1.35

Note 15: Differences From United States Accounting Principles

Canadian generally accepted accounting principles ("Canadian GAAP") differ in some respects from the principles that the company would follow if its consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). The effects of significant accounting differences on the company's balance sheet and statements of income, retained earnings and cashflow are quantified and described in the accompanying notes.

(a) Income Statement Differences

The incorporation of the significant differences in accounting principles in the company's income statements for the years ended December 31, 1998 and 1997 under US GAAP would result in net income under US GAAP of $83 million (1997 – $41 million). The main differences between Canadian GAAP and US GAAP are summarized in the following table:

Years ended December 31 *(Millions, except per share numbers)*		1998	1997
Net income as reported under Canadian GAAP		$ 189	$ 109
Adjustments			
Increased commercial property income under US GAAP	106	30	21
Increased commercial property depreciation under US GAAP	99	(97)	(62)
Increased deferred income taxes under US GAAP	8	(58)	(20)
Subordinated convertible debentures interest	65	(20)	(16)
Stock option expense	65	(1)	(1)
Minority shareholders' interests	109	40	10
Net Income Under US GAAP*		$ 83	$ 41
Net Income Per Share			
Basic and diluted		$ 0.41	$ 0.13

* *There are no extraordinary items or discontinued operations in these results.*

All of the instruments which provide for the issuance of additional common shares of the company at the option of the holder, disclosed elsewhere in these financial statements, are anti-dilutive and, accordingly, have been excluded from the calculation of diluted net income per share under US GAAP.

The significant differences in each category between Canadian GAAP and US GAAP are as follows:

– Commercial Property Income

Under Canadian GAAP, rental revenue is recognized over the term of the lease as it becomes due where increases in rent are included in revenue as they occur to offset the estimated effects of inflation. Under US GAAP, rental revenue is recognized on a straight-line basis over the term of the lease. The net impact of using the straight-line method on the income of the company would be to increase the commercial property revenue by $30 million (1997 – $21 million), and to increase retained earnings by $32 million representing straight-line income realized prior to 1997. The corresponding increase in rent receivable would be $83 million (1997 – $53 million).

– Commercial Property Depreciation

Under Canadian GAAP, commercial properties are depreciated using the sinking-fund method. Under US GAAP, commercial properties are depreciated on a straight-line basis. In recomputing depreciation on a straight-line basis, the additional depreciation expense would be $97 million (1997 – $62 million).

– Deferred Income Taxes

Under Canadian GAAP, the deferral method of accounting for income taxes is followed. Under US GAAP, income taxes are accounted for using the liability method. As a result, for the year ended December 31, 1998, additional deferred income tax expense of $58 million (1997 – $20 million) would be recorded under US GAAP.

– Subordinated Convertible Debentures

Under Canadian GAAP, the company's subordinated convertible debentures are recorded as a component of the company's capital base and interest paid thereon recorded as a distribution from retained earnings, as a result of the company having the option of repaying these debentures and accrued interest by delivering its common shares to the holders. Under US GAAP, $374 million (1997 – $300 million) of subordinated convertible debentures would be recorded as indebtedness. The corresponding interest charge of $20 million (1997 – $16 million) is recorded as a charge to income compared with a distribution from retained earnings under Canadian GAAP. There is no effect on fully diluted net income per share.

– Stock Options Expense

Under Canadian GAAP, no compensation expense has been recorded in respect of stock options granted during the year. Under US GAAP, the company has decided to adopt the recommendations of the Statement of Financial Accounting Standards No. 123 ("SFAS 123") which is entitled, "Accounting for Stock-Based Compensation" and which establishes financial accounting and reporting standards for stock-based employee compensation plans.

Under SFAS 123, the company accounts for stock options or similar equity instruments under a fair value methodology. Under this method, options are valued using an acceptable valuation method and the charge on an annual basis is reflected in the income statement. Using the Black-Scholes model of valuation, assuming a ten-year term, 27% volatility (1997 – 37%) and an interest rate of 5.5% (1997 – 6.5%), the cost of stock compensation would be $1 million (1997 – $1 million). This amount has been recorded as an expense under US GAAP.

– Minority Shareholders' Interests

Under US GAAP, minority shareholders' interests are adjusted for the corresponding amount when converted from Canadian GAAP. The total adjustment results in minority shareholders' interests increasing by $40 million (1997 – $10 million) which relate to a recovery of $20 million (1997 – $2 million) from increased commercial property depreciation and $23 million (1997 – $9 million) from increased deferred taxes, offset by $3 million (1997 – $1 million) relating to the minority shareholders' interests in the straight-line rental income.

(b) Comprehensive Income

Under US GAAP, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130 "Reporting Comprehensive Income." This standard is applicable for the company's 1998 fiscal year. Comprehensive income, which incorporates net income, includes all changes in equity during the year, and accordingly, the change in the company's cumulative translation adjustment is reflected in the company's calculation of comprehensive income for fiscal 1998 and 1997:

Years ended December 31 *(Millions)*	1998	1997
Net income under US GAAP	$ 83	$ 41
Other comprehensive income, net of tax		
Foreign currency translation adjustment	2	25
Comprehensive income	$ 85	$ 66

(c) Balance Sheet Differences

There are differences in the treatment of balance sheet items between Canadian GAAP and US GAAP. The incorporation of the significant differences in accounting principles in the company's financial statements as at December 31, 1998 and 1997, would result in the following balance sheet presentation under US GAAP:

As at December 31 *(Millions)*	1998	1997
Assets		
Commercial properties	$ 8,703	$ 3,769
Residential home building	843	691
Development land	558	661
Receivables and other	1,072	1,041
Deferred taxes	451	540
Cash and cash equivalents	178	71
Total assets under US GAAP	$ 11,805	$ 6,773
Liabilities and Shareholders' Equity		
Commercial property debt	$ 6,466	$ 1,840
Residential construction financing	624	577
Shareholder and other advances	628	624
	7,718	3,041
Accounts payable	384	238
Minority shareholders' interests	1,041	930
Subordinated convertible debentures	374	300
Preferred shares	366	366
Common shares	1,922	1,898
Total liabilities and equity under US GAAP	$ 11,805	$ 6,773

The significant differences in each category between Canadian GAAP and US GAAP are as follows:

– Commercial Properties

As at December 31 *(Millions)*	1998	1997
Commercial properties under Canadian GAAP	$ 9,026	$ 6,395
Additional accumulated depreciation under US GAAP	(246)	(149)
Equity accounting of assets under US GAAP	—	(2,390)
Other	(77)	(87)
Commercial properties under US GAAP	$ 8,703	$ 3,769

There are two principal differences between Canadian GAAP and US GAAP affecting the carrying value of commercial properties. The first difference relates to US GAAP requiring straight-line depreciation to be applied to depreciable assets as opposed to the sinking-fund method of depreciation. At December 31, 1998, this would result in a cumulative adjustment of $246 million (1997 – $149 million). The second difference relates to the method of accounting for joint ventures and partnerships. Under Canadian GAAP, the accounts of all incorporated and unincorporated joint ventures and partnerships are proportionately consolidated according to the company's ownership interest. Under US GAAP, the equity method of accounting is applied. In circumstances where a joint venture is an operating entity and the significant financial and operating policies are, by contractual arrangement, jointly controlled by all parties having an equity interest in the entity, US regulations do not require adjustment to equity account the joint ventures. Other than its interest in Brookfield Financial Properties, the presentation of the company's joint ventures does not require adjustment to the equity method. As at December 31, 1997, commercial properties under US GAAP included $787 million, representing the company's equity accounted carried value in Brookfield Financial Properties.

Under Canadian GAAP, commercial properties held for investment purposes are carried at the lower of cost and net recoverable amount as disclosed in Note 1(c). Under US GAAP, such assets, on an identifiable unit basis, are required to be reviewed for impairment in accordance with the requirements under Statement of Financial Accounting Standards No. 121, which is entitled, "Accounting for the Impairment of Long-Lived Assets and for Assets to be Disposed Of." There is no material impact as a result of this as at December 31, 1998 and 1997.

– Receivables and Other

December 31 *(Millions)*	1998	1997
Receivables and other under Canadian GAAP	$ 984	$ 1,003
Straight-line rent receivable	83	53
Short-term investments	27	14
Instalment receivable	—	148
Equity accounting of assets under US GAAP	—	(129)
Other adjustments	(22)	(48)
Receivables and other under US GAAP	$ 1,072	$ 1,041

The principal difference in the accounting for receivables and other under US GAAP is the inclusion of a straight-line rent receivable of $83 million (1997 – $53 million).

– Deferred Taxes

Under US GAAP, companies are required to allocate fair value to their assets and liabilities at the purchase date and are required to identify and record separately the deferred tax assets or liabilities relating to differences between the accounting and tax bases of assets and liabilities. Under Canadian GAAP, such differences are taken into account when determining the fair value of the net assets acquired in a purchase. These net assets acquired are reflected net of the future tax effects from these differences.

Under Canadian GAAP, no significant deferred tax assets or liabilities have been reflected as the potential benefit of operating losses may be recognized only to the extent that they are virtually certain of realization. Under US GAAP, the company has determined that it has a net deferred tax asset of $451 million (1997 – $540 million). This amount has been recorded as an asset in the US GAAP balance sheet. The offsetting balance created by this adjustment has been allocated as an increase of $118 million (1997 – $150 million) to shareholders' equity, as a reallocation of net deferred taxes of $24 million (1997 – $48 million) from receivables and other, as a decrease to development land of $95 million (1997 – $95 million) to offset purchase discrepancies, as a decrease to commercial properties of $77 million (1997 – $87 million) to offset purchase discrepancies and as an increase of $137 million (1997 – $160 million) to minority shareholders' interests representing minority shareholders' interests in the benefit of subsidiaries tax losses.

The deferred tax asset under US GAAP is calculated as follows:

December 31 *(Millions)*	1998	1997
Canada		
Tax benefit related to operating and capital losses	$ 414	$ 417
Tax benefit related to adjustment of tax to book basis	259	299
Valuation allowance	(288)	(288)
United States		
Tax benefit related to operating and capital losses	615	554
Tax liability related to adjustment of tax to book basis	(403)	(306)
Valuation allowance	(146)	(136)
Deferred tax asset under US GAAP	$ 451	$ 540

– Cash and Cash Equivalents

Under US GAAP, cash and cash equivalents include cash and short-term liquid investments with original maturities of three months or less. Under Canadian GAAP, cash includes cash and short-term investments. At December 31, 1998, $27 million (1997 – $14 million) of short-term investments have been reclassified from cash and cash equivalents to receivables and other under US GAAP. As well, an instalment receivable of $148 million at December 31, 1997, related to the issue of securities of the company in the prior year, has been reclassified from cash and cash equivalents to receivables and other under US GAAP. The entire amount of the instalment was collected in February 1998.

– Commercial Property Debt

December 31 *(Millions)*	1998	1997
Commercial property debt under Canadian GAAP	$ 6,466	$ 4,357
Equity accounting of investments under US GAAP	—	(2,517)
Commercial property debt under US GAAP	$ 6,466	$ 1,840

The principal difference in the accounting for commercial property debt under US GAAP is that the debt borrowed in joint ventures, for which the company reflects its proportionate share under Canadian GAAP, is reflected on a net basis under the equity basis of accounting as required under US GAAP.

– Common Shareholders' Equity

December 31 *(Millions)*	1998	1997
Common shareholders' equity under Canadian GAAP	$ 1,947	$ 1,842
Adjustment to accumulated depreciation under US GAAP	(246)	(149)
Recognition of deferred tax asset under US GAAP	118	150
Rental revenue adjustments under US GAAP	83	53
Minority shareholders' interests	20	2
Common shareholders' equity under US GAAP	$ 1,922	$ 1,898

The components of common shareholders' equity under US GAAP, after the adjustments above, are as follows:

December 31 *(Millions)*	1998	1997
Common shares	$ 1,641	$ 1,638
Additional paid-in capital and deficit, net*	276	168
Cumulative translation adjustment	41	39
Cumulative adjustments to net income and retained earnings	(36)	53
Common shareholders' equity under US GAAP	$ 1,922	$ 1,898

**Includes deficit of $324 million (1997 – $432 million).*

– Joint Ventures

The following amounts represent the company's proportionate interest in incorporated and unincorporated joint ventures reflected in the company's balance sheet for US GAAP purposes.

As at December 31 *(Millions)*	1998	1997
Assets	$ 776	$ 375
Liabilities	539	85
Operating revenues	113	74
Operating expenses	42	33
Net income	30	13
Cashflows from operating activities	31	80
Cashflows from investment activities	106	(4)
Cashflows from financing activities	(205)	(16)

(d) Cashflow Statement Differences

The statement of cashflow prepared under US GAAP differs from Canadian GAAP because US GAAP requires that non-cash transactions be excluded from both investing and financing activities, and requires reclassification of interest on convertible debentures from a financing item as an operating item. In the two year period ended December 31, 1998, principal differences between US GAAP and Canadian GAAP relate to the February 1997 issuance of common shares and convertible debentures for which proceeds were recovered on an instalment basis in 1997 and 1998, and the assumption of debt in non-cash transactions when properties were acquired (see Note 11). As a result of the differences in accounting for these items described, the summarized cashflow statement under US GAAP, is as follows:

Years ended December 31 *(Millions)*	1998	1997
Cashflows from (applied to) the following activities		
Operating	$ 230	$ 47
Financing	434	464
Investing	(557)	(485)
Net increase in cash and cash equivalents	$ 107	$ 26

(e) Recent Accounting Pronouncements

In June 1998, FASB issued Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which establishes the accounting and reporting standards for derivative instruments, including instruments embedded in other contracts, and hedging activities. SFAS 133 is effective for financial statements for fiscal years beginning after June 15, 1999. The company does not use derivatives for speculative purposes. The company does not expect SFAS 133 to have a significant effect on its accounting and reporting of any derivatives used in hedging activities.

Note 16: Contingencies and Other

(a) The company and its operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability which may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of the company.

Generally accepted accounting principles require that, where practicable, estimates be made with respect to the fair value of both on and off balance sheet financial instruments. The financial assets of the company are generally short-term floating rate loans receivable of a trade nature, with the exception of the longer term investments as described in Note 4. At December 31, 1998, the fair value of loans receivable exceeded their book value by $7 million (1997 – $15 million). The fair value of mortgages and loans payable is determined by references to current market rates for debt with similar terms and risks. As at December 31, 1998, the fair value of mortgages and loans payable exceeded the book value of these obligations by $108 million (1997 – $65 million).

In June 1998, the company acquired the remaining 30% interest in Brookfield Management from a related company. This position was acquired on normal market terms for $18.2 million and was recorded at exchange value. Included in commercial property debt is $369 million (1997 – nil) of mortgage financing held by related parties, and during 1998 financial assets of $71 million were sold to an affiliate on normal market terms and were recorded at exchange value.

(b) Weighted Average Shares Outstanding

The weighted average number of shares outstanding was 132.8 million (1997 – 95.9 million) on a basic basis.

(c) The Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

(d) Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

DIRECTORS

Gordon E. Arnell
Calgary, Alberta
Chairman and Chief Executive Officer
Brookfield Properties Corporation

Jean A. Beliveau, O.C.(2)
Montreal, Quebec
President
Jean Beliveau Inc.

Ian G. Cockwell
Oakville, Ontario
Deputy Chairman
Brookfield Properties Corporation and
Chairman, Brookfield Homes

Jack L. Cockwell
Toronto, Ontario
President and Chief Executive Officer
EdperBrascan Corporation

Robert A. Ferchat(2)
Mississauga, Ontario
Chairman and Chief Executive Officer
BCE Mobile Communications Inc.

J. Bruce Flatt
Toronto, Ontario
President and Chief Operating Officer
Brookfield Properties Corporation

Roger N. Garon(2)
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Chairman
Multi-Vet Ltd.

Robert J. Harding(2)(3)
Toronto, Ontario
Executive Chairman
EdperBrascan Corporation

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New York, New York
Division Executive, Global Real Estate
Citicorp Real Estate, Inc.

David A. Lewis(1)(2)
Toronto, Ontario
Corporate Director

John R. McCaig, O.C.(3)
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Chairman
Trimac Corporation

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Senior Vice President
Canadian Imperial Bank of Commerce

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President
First Industries Corporation

Sam Pollock, O.C.(1)(3)
Toronto, Ontario
Vice Chairman
Brookfield Properties Corporation

John E. Zuccotti
New York, New York
Deputy Chairman
Brookfield Properties Corporation and
Chairman, Brookfield Financial Properties

Membership of Board Committees:
(1) Audit Committee
(2) Human Resources Committee
(3) Governance and Nominating Committee

CORPORATE GOVERNANCE

A full statement of Brookfield's corporate governance practices, including the mandate of the board and its committees, can be found in the Management Proxy Circular dated February 26, 1999.

Officers

Corporate

Gordon E. Arnell
Chairman and Chief Executive Officer

Ian G. Cockwell
Deputy Chairman

John E. Zuccotti
Deputy Chairman

J. Bruce Flatt
President and Chief Operating Officer

Steven J. Douglas
Senior Vice President and
Chief Financial Officer

John D. Kennedy
Vice President, Finance – Commercial

Paul G. Kerrigan
Vice President, Finance – Home Building

Michael K. Amos
Vice President, Human Resources

P. Keith Hyde
Vice President, Taxation

Robert A. Ross
Vice President, Corporate Relations

Gordon E. Widdes
Vice President, Information Systems

Michael Zessner
Vice President and General Counsel

Property Operations

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Gentra Inc.

John W. Campbell
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Thomas F. Farley
President, Western Canada

Bob Pozzobon
President, Ontario Region

Kirk Taylor
President, Pacific Canada

R. Barry Wilkinson
Vice President, Ottawa

John M. Oakes
President, Residential Management

David H. Glass
President, Brookfield LePage
Johnson Controls

Serge G. Duguay
President, Brookfield Cogir, Montreal

Brian C. Collyer
Senior Vice President, Business
Development, Gentra Inc.

Kieran F. Mulroy
Senior Vice President and
General Counsel, Gentra Inc.

Karen H. Weaver
Senior Vice President and
Chief Financial Officer, Gentra Inc.

United States

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Chairman, Brookfield Financial Properties

Richard B. Clark
President and Chief Operating Officer,
Brookfield Financial Properties

Harold R. Brandt
President, Midwest U.S.

Tracy W. Wilkes
President, Mountain U.S.

Edward F. Beisner
Senior Vice President and Controller

Lawrence F. Graham ,
Senior Vice President, Operations and
Development

Jeremiah B. Larkin
Senior Vice President, Leasing

Kathleen G. Kane
Senior Vice President and General Counsel

Robert A. Ross
Senior Vice President, Finance

Land and Housing

Ian G. Cockwell
Chairman, Brookfield Homes

West Coast Region

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President and Chief Executive Officer

Stephen P. Doyle
President, San Diego

Jeffrey J. Prostor
President, Southland (Los Angeles)

John J. Ryan
President, San Francisco Bay Area

Richard T. Whitney
Senior Vice President, Finance

East Coast Region

Peter E. Nesbitt
President and Chief Executive Officer

Robert C. Hubbell
President, Virginia/Maryland

Albert C. Piazza
President, Florida

David B. Adler
President, Adler Partnership

Mountain Region

Alan Norris
President and Chief Executive Officer

R. Brian Hodgson
Executive Vice President and
Chief Operating Officer, Calgary

Douglas W. Kelly
Senior Vice President, Edmonton

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Herbert E. Groenenboom
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Shareholder Information

Shareholder questions relating to investor relations and financial results should be directed to Steven J. Douglas, Senior Vice President and Chief Financial Officer at (416) 359-8600. Shareholder questions relating to dividends, address changes and share certificates should be directed to the company's Transfer Agent.

1999 Annual Meeting

The Annual Meeting of Shareholders will be held at The Exchange Tower, TSE Conference Centre, 2 First Canadian Place, 130 King Street West, Toronto, Ontario, at 10 a.m. on April 28, 1999.

Opposite page photo:
Buildings in background (left to right): One Liberty Plaza (black tower), and One World Financial Center (gold tower).

BROOKFIELD

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